# Economic Intelligence Weekly Review

21 September 1978

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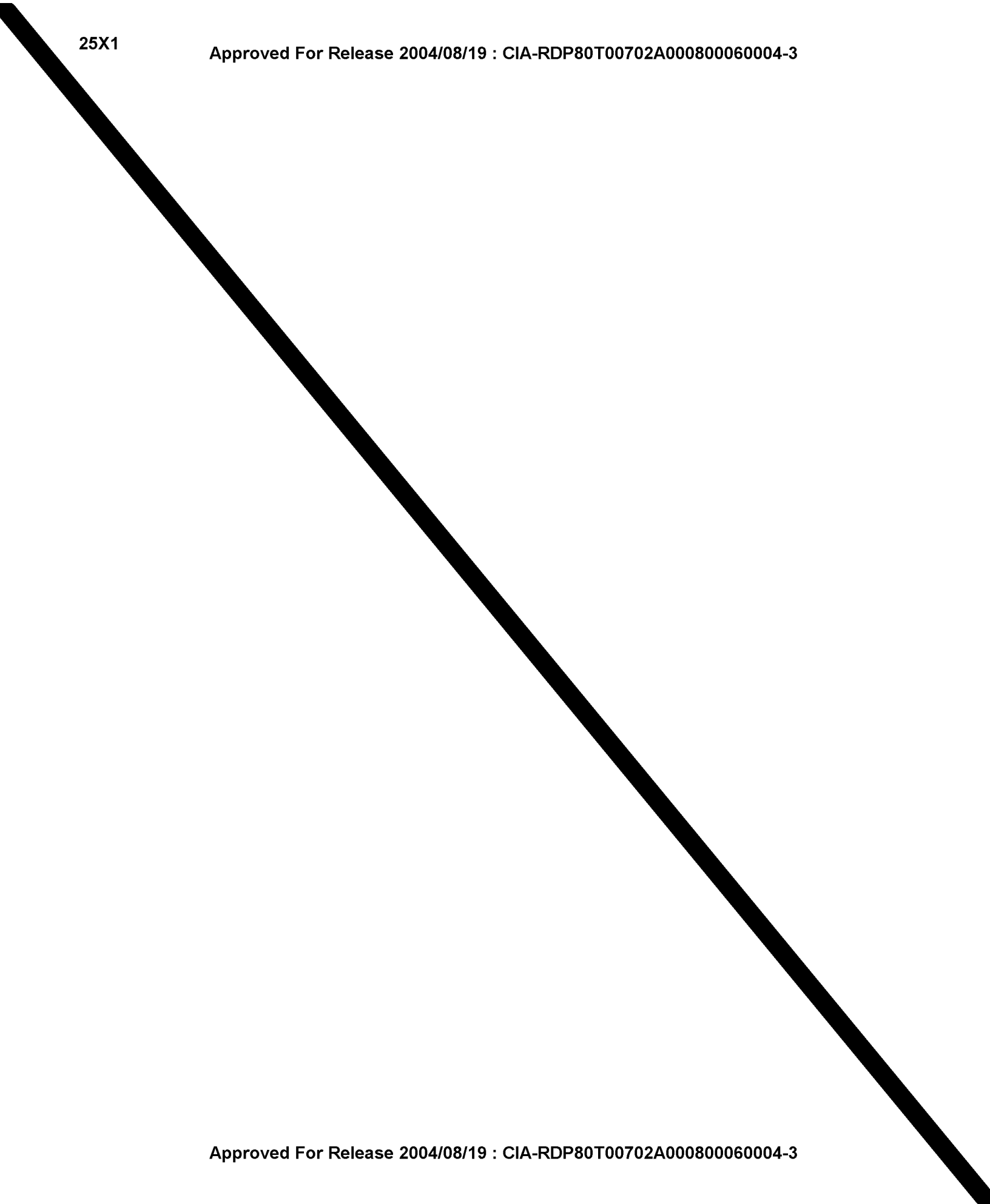

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# ECONOMIC INTELLIGENCE WEEKLY REVIEW

## 21 September 1978



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Current Survey

# MAJOR RECENT DEVELOPMENTS AFFECTING THE INTERNATIONAL ECONOMY

## Followup to Summit

Three months after the Economic Summit most of the major developed countries have launched new policy initiatives in an attempt to fulfill commitments made in Bonn. With the exception of West Germany and Japan, countries have focused their economic policy for 1979 on trimming inflation rather than stepping up growth. (Unclassified)

## Japan

Prime Minister Fukuda, as he promised, has proposed a supplemental spending package—totaling approximately $13 billion—to bolster GNP growth. Although Fukuda pledged to boost growth in FY78 1.5 percentage points above the FY77 level of 5.4 percent, Japanese officials now believe the new program will push growth only into the 6- to 6.5-percent range, the minimum result acceptable to the United States and Western Europe in Tokyo's judgment.

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CIA/OER is more pessimistic about the results; we judge growth will, at best, edge up to the 5.5-percent level.

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Despite the persistent sluggishness of the economy, Prime Minister Fukuda has improved his political position and is considerably more confident about his prospects for reelection as President of the ruling Liberal Democratic Party (in effect, as Japanese Prime Minister) in December. Fukuda's stock has been rising, notably because of the completion of the Japan-China Peace and Friendship Treaty; his performance at Bonn and in negotiations with the United States also contributed.

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### West Germany

Despite some resistance within the Cabinet, the West German stimulation package stands ready for submission to the Bundestag. Chancellor Schmidt's plan—consisting of tax cuts and increased outlays totaling roughly 1 percent of GNP—should appreciably raise growth next year. OER estimates that the package could push 1979 growth up as much as 1.5 percentage points above the 3-percent level that might be achieved without the stimulus. [redacted] 25X1

### The Others

While the remaining Summit participants were less forthcoming in making specific promises, most have launched new policies in part as a response to Summit deliberations. France and Canada are focusing on inflation. Paris, however, while holding down budget outlays for the near term, has programed a 1979 budget deficit similar to that promised in Bonn. Ottawa is trimming both expenditures and taxes. In London and Rome, government leaders are struggling to keep wages and prices down; trade unions in both countries have chafed under current government guidelines. [redacted] 25X1

### International Currency Markets

Foreign exchange markets had been quiet in the first half of September, as traders in Europe and the Middle East apparently awaited the outcome of the Camp David meeting. Although the dollar came under light downward pressure in Europe after the Camp David announcement of results, most dealers are still evaluating the outcome and waiting for OPEC reaction. In Japan, banks and trading companies are pausing to evaluate new Japanese stimulation measures as well as on-going bilateral trade discussions with the United States. [redacted] 25X1

[redacted] 25X1

## OPEC Price Policy

The rumors which circulated most of the summer of a special OPEC meeting in mid-September to raise oil prices in fourth-quarter 1978 proved false. Saudi Arabia and Iran apparently succeeded in quashing discussions among the less powerful member states led by Kuwait.

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## China's More Open Policy

China's interest in international trade and finance has perked up in recent months, reflecting Peking's program to accelerate development through the acquisition of Western technology. Signings of plant contracts have begun, and a new flexible policy on import financing is unfolding.

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Articles

## JAPANESE SUPPLEMENTAL BUDGET: STILL SHORT OF 7-PERCENT GROWTH

Prime Minister Fukuda announced on 2 September a supplemental spending plan billed as Tokyo's answer to meeting its 7-percent growth target for FY 1978 ending next March. The package includes $6 billion to $7 billion in new central government outlays (0.7 percent of GNP) plus another $6 billion in off-budget items such as concessionary housing loans and suggested local government spending.

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### The Economic Backdrop

After a strong showing in the January-March quarter, when the annual growth rate topped 10 percent, Japan's economic performance has shown signs of slipping. Overtime in manufacturing has fallen steadily since April. New construction orders—both public and private—have dropped; orders fell 5.3 percent in July on top of a 4.2-percent dip in June. Consumer demand, about 50 percent of GNP, has been plodding along, with growth less than 5 percent because of the slow advance in personal incomes. Export growth, the mainstay of the good first quarter record, has disappeared. Between February and August, the index of export volume fell by roughly 14 percent as a result of yen appreciation and voluntary export restraints on some key items. In the absence of a supplemental budget, it appears that Japan would be on a growth track of 4.9 percent for FY 1978.

### The Reflation Package

Main elements of the supplemental spending package include:

- $7 billion in central government public works outlays for roads, sewers, and schools.

- $4.2 billion in low-interest loans for 73,000 housing units.

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- $1.7 billion in recommended spending by local governments on parks, schools, sewers, and the like.

Other elements in the Fukuda announcement that bear on growth include:

- An as yet unspecified increase in aid to industries hard hit by yen appreciation.

- Loans to depressed industries and vocational retraining programs for displaced workers.

- A reduction in consumer utility rates; Japanese electric power companies have not yet passed on the benefits resulting from the drop in yen oil costs.

As in the past, Tokyo will use its leverage with the power companies to keep utility investment high. It has wrested a commitment from electric power and gas companies to place $900 million in advance orders with Japanese manufacturers for new equipment.

**What Tokyo Now Sees**

Tokyo publicly claims the stimulation package will boost Japanese economic growth by 1.2 percentage points in FY 1978. Adding another 0.1 percentage point boost from stepped-up utility investment, the government is still publically claiming that growth will hit the 7-percent target. Privately, most government officials are less optimistic, forecasting GNP growth slightly in excess of 6 percent, with domestic demand growing by nearly 7 percent. Government officials feel these levels will be adequate for Japan to honor its 7-percent growth commitment made early in 1978 and reaffirmed at the Bonn summit in July. On the foreign side, Tokyo is now officially forecasting a $13 billion current account surplus for this fiscal year, down from $14 billion in FY 1977.

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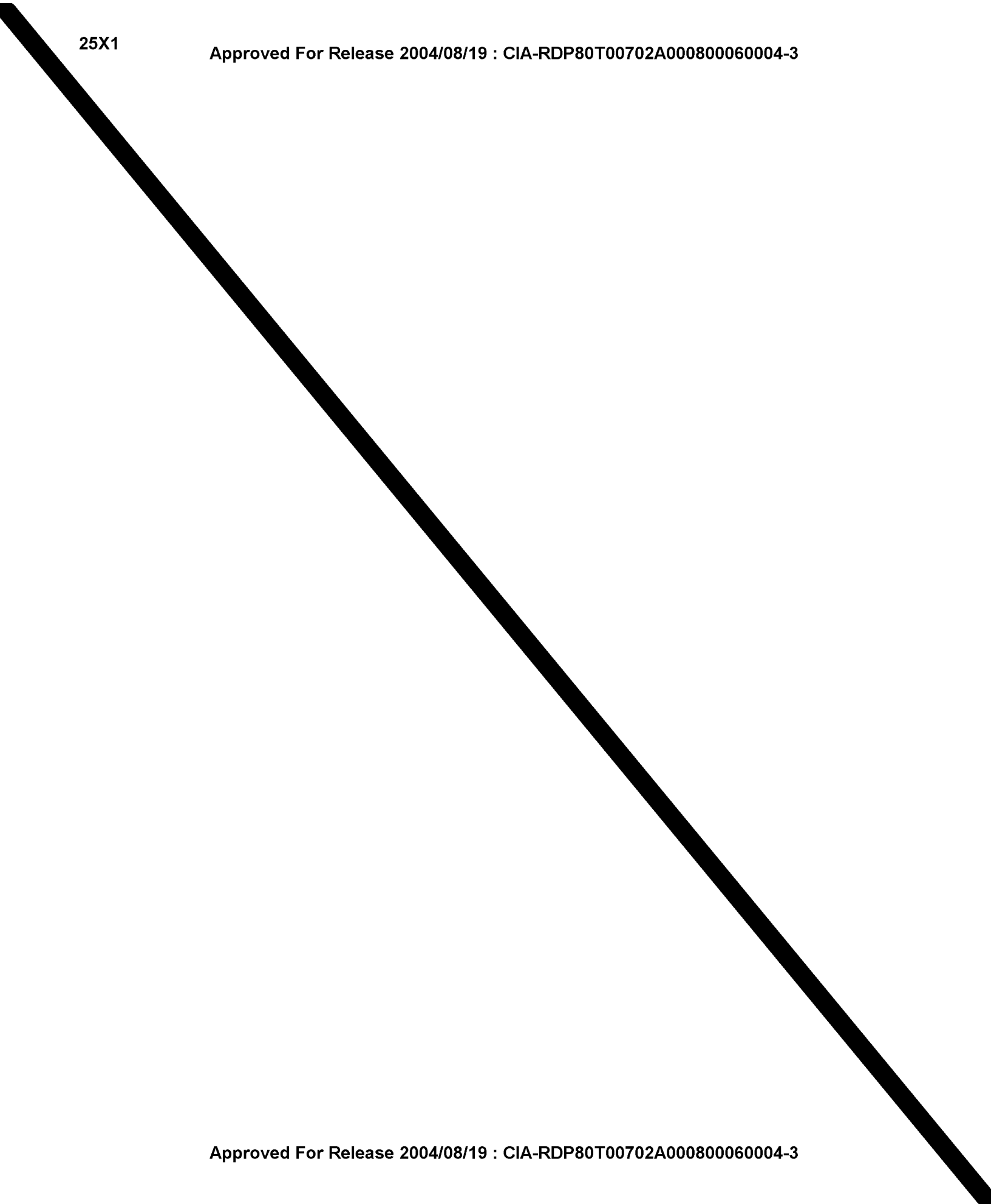

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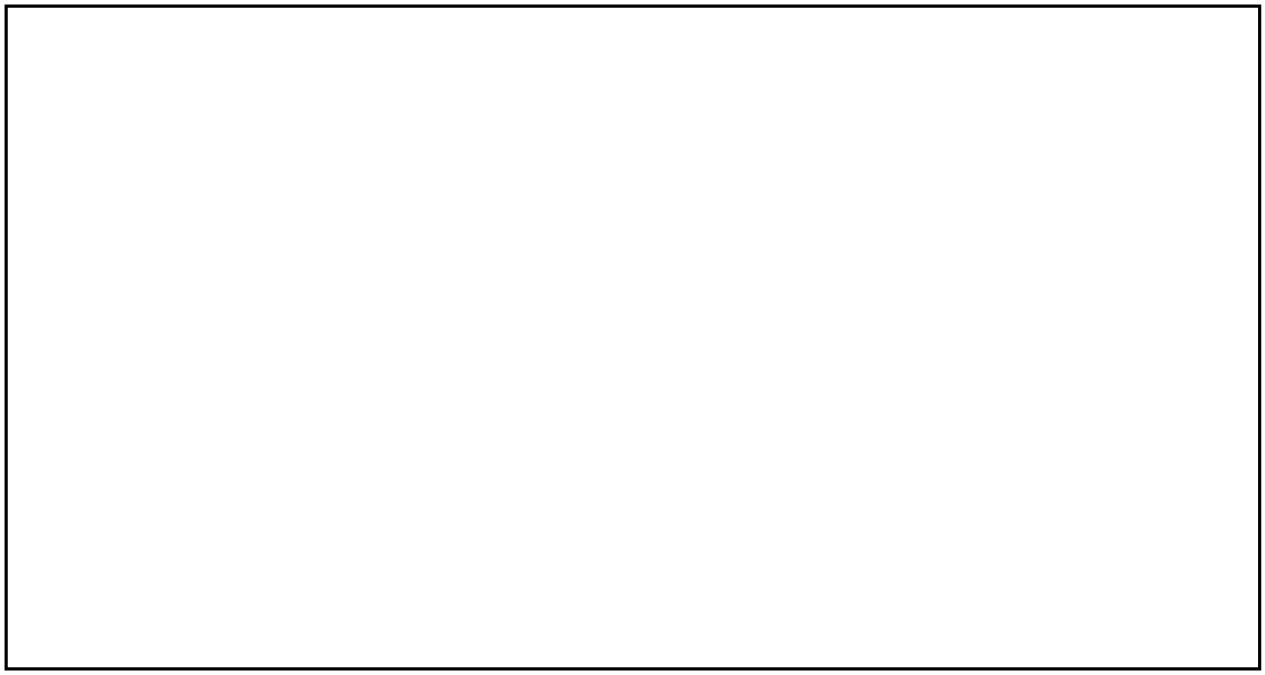

**Other Views**

A number of Japanese economists have voiced doubts that the supplemental package will add much to growth in FY 1978, in part because the boost in public works will be partly offset by a reduction in current government outlays.

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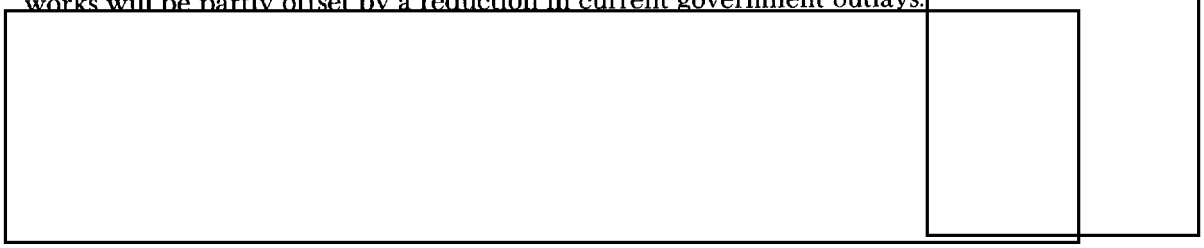

These views are more pessimistic than even the privately expressed government views and those held at the US Embassy in Tokyo. The Embassy's estimates show GNP growing about 6 percent this year with a 5.5-percent gain in private consumption; the assumption is that final domestic demand, which rose at nearly 10-percent annual rates in first half 1978, will remain strong.

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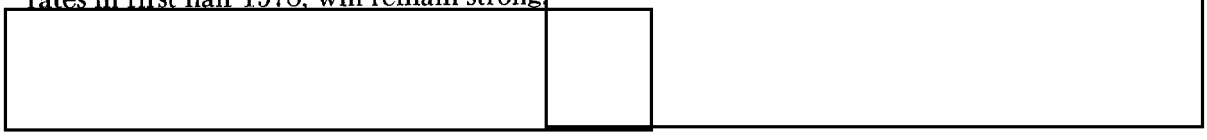

We believe most of the risk on growth is downside. Private consumption could grow by less than 4 percent this year, dragging GNP growth down to just more than 5 percent. Some private forecasters are currently estimating Japanese GNP growth of less than 5 percent in FY 1978. The prestigious Japan Economic Research Center, for

example, projects 4.8-percent growth for calendar 1978 and even less growth for calendar 1979.

If Tokyo sees growth coming in under the FY 1978 target, the government is likely to opt for a second supplemental budget. [redacted] 25X1

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## NORTH-SOUTH DIALOGUE: GRAPPLING WITH TECHNOLOGY TRANSFER ISSUES *

The North-South dialogue is moving full force into the complex and unstructured area of international technology transfer, as attested by the stepped-up pace of meetings on the issue:

- In August-September 1978, the industrialized nations and the LDCs have been participating in a UN conference on technical cooperation among developing countries (TCDC).

- In October 1978, negotiations will open on an international code of conduct for the transfer of technology.

- In August 1979, the United Nations will hold a major conference on science and technology for development (UNCSTD), with extensive preparations now in train.

- In late 1979, diplomats will take up the question of revising the Paris Convention on Industrial Property (patents, trademarks, and industrial designs).

Most industrialized countries see these conferences as a means to review the diverse elements involved in scientific and technical cooperation. Many LDCs, on the other hand, see them as opportunities to gain additional funds and concessions on the technology transfer process itself.

### Current G-77 Stances

North-South negotiations at higher diplomatic levels have until now centered on

[redacted] 25X1

commodity price stabilization, commodity agreements, and debt relief. The wealthier and more advanced LDCs, however, have had little interest in such issues and have supported the positions of the Group of 77 (G-77) mainly for the sake of Third World solidarity. On science and technology (S&T) issues the situation is reversed. The high-income LDCs consider the transfer and acquisition of advanced technology to be critical for their development while most poorer LDCs remain largely bystanders. In return for their earlier advocacy of G-77 positions, the upper-tier LDCs now expect support from the largely indifferent poorer nations on technology transfer issues.

The most recent comprehensive statement of G-77 demands on the S&T front, the Manila Declaration, puts the LDCs on record as seeking:

- Implementation of policies at the national, regional, and international levels to strengthen technological capacities in LDCs.

- Establishment of a legally binding international code of conduct for the transfer of technology, which would bear heavily on the operations of multinational corporations (MNCs).

- Revision of the international patent system to improve the terms of LDC access to proprietary technology.

- Adoption of policies both to stem the outflow of skilled manpower from LDCs and to provide compensation for this "brain drain."

Until now, the LDCs have focused their negotiating energies on the development of a technology transfer code, one of the first areas to be explored in the international meetings. They—especially the Latin Americans—attach great importance to this element because they feel their development plans are often thwarted by technology choices dictated by the MNCs, the industrial nations, and international institutions dominated by the developed countries (DCs). The code in their view represents the most direct means of attacking what is seen as a brake on suitable development. Meetings of experts on the topic in 1977 and 1978 have helped stimulate interest and stiffen LDC resolve to press their position at the negotiating conference next month.

In contrast to the specificity of G-77 demands on a technology transfer code (which the LDCs have been working on since 1975), the developing nations are less well prepared to cope with the broader range of S&T discussions at the 1979 UN Conference on Science and Technology for Development. The scheduled submissions to the UN Secretariat of national papers describing each country's S&T situation and needs are lagging, and the technical weakness of the delegations representing the

LDCs at preparatory meetings has hindered substantive discussions with the industrialized nations.

## Positions of Key LDC Actors

Despite growing attention to transfer of technology issues, many LDCs have essentially remained spectators in the preparations for the related international meetings. Only a few have had the technological breadth and bureaucratic depth to present well-developed arguments. Within this latter group, the several larger Latin American countries—Argentina, Brazil, Colombia, Mexico, and Venezuela—have been most outspoken in formulating technology-related demands. The ***Brazilians*** and ***Mexicans***, in particular, have argued strongly for the establishment of an internationally binding technology transfer code. One reason for this is their desire to bring other countries into line with the tough standards they already set for: (a) MNC operations in their countries, (b) profit remittances, and (c) transnational licensing arrangements. Colombia and Argentina also hold strong views on technology issues. ***Argentina*** is taking a leading role on the question of technical cooperation among LDCs.

In Asia only India, Indonesia, and Malaysia have been especially active in addressing S&T matters. Both ***India*** and ***Indonesia*** lobby for G-77 proposals with special emphasis on the code of conduct. Among the three, ***Malaysia*** takes the most restrained views, consistent with its policy of actively courting foreign investment. Regarding this aspect (and most others) of the North-South dialogue, there is a conspicuous absence of the several East Asian exporters of manufactures—***Taiwan***, ***South Korea***, ***Singapore***, ***Hong Kong***—for whom technology transfer is critical. Here the key feature seems to be mutual discomfort: the East Asians see better opportunities for gain in distancing themselves from G-77 polemics; the G-77, in turn, usually regards them as willing capitves of the existing international order.

The positions of the major OPEC countries on S&T matters have been less strident than on other aspects of the North-South dialogue. ***Algeria*** has been the most outspoken, actively supporting G-77 demands on the technology transfer code as well as brain-drain controls. The Persian Gulf states have been quiet on the brain-drain issue, in large part reflecting their status as major users of skilled foreign labor. More generally, the Saudis and Iranians have shown only moderate interest in technology transfer questions. ***Iran's*** main concern, like that of many of the more advanced LDCs, has been to assure access to sensitive military and civilian technologies. This last issue remains key for Brazil, Argentina, India, and most of the Middle Eastern countries.

Missing from the list of key actors are the many small African and other least developed countries. This, of course, tends to rob the exchange of the authenticity that

## Key Actors

| Country | Key Concerns | Other Interests | Stances |
|---|---|---|---|
| Algeria | Access to basic and advanced technology for development of the hydrocarbons sector (refineries, petrochemicals, LNG plants, pipelines). | Technology to develop agriculture and water resources; technical training for the labor force. | Actively supports G-77 demands on technology transfer code and brain-drain issues. |
| Argentina | Oil exploration and development of nuclear energy. | Technological cooperation with other LDCs. | Actively supports G-77 proposals; host of August 1978 UN TCDC conference. |
| Brazil | Access to advanced industrial technology, including nuclear power. | Assurance of fair payments structure for patents and copyrights. | G-77 coordinator on technology transfer code negotiations; generally seeks to avoid confrontation with Group B. |
| Colombia | Access to advanced technology for petroleum and coal exploration, production, and processing. | Technology for agricultural development. | Active on brain-drain and technology-transfer code issues; believes G-77 negotiators are disposed to make too many early concessions on property rights. |
| Egypt | Seeks to increase inflows of Western technology by easing restrictions on private foreign investment; particularly interested in communications and desert reclamation techniques. | Food technology. | Active on brain-drain and technology-transfer code issues; focuses on removal of "obstacles" at the international level to the application of S&T for development. |
| India | Access to technology for energy exploration and development; seeks advanced technology in computers and armaments. | Wants to avoid foreign control of technology; seeks transfer apart from foreign investment whenever possible. | Active in formulation of G-77 positions on technology transfer code, TCDC, and brain drain; hosts international S&T conferences. |
| Indonesia | Access to minerals and agricultural S&T | Watches technology charges and profit remittances closely. | Actively supports G-77 prosposals. |
| Iran | Access to modern armaments; nuclear power plant equipment; petrochemical industry technology; direct reduction steel plants; copper refining technology. | Seeks to attract increased direct foreign investment without sacrificing control over sectoral development. | Has shown only moderate interest in technology transfer code negotiations. |

Key Actors (Continued)

| | | | |
|---|---|---|---|
| Iraq | Access to a wide range of technology for petroleum, nuclear power, computers, petrochemicals, food processing, and irrigation. | As a socialist economy, seeks to avoid new private foreign investment, relying instead on turnkey projects. | Supports G-77 positions on technology transfer code and brain-drain issues. |
| Ivory Coast | Access to modern production methods in light industry, and commercial agriculture. | Actively seeks direct foreign investment. | Strong ties to French private sector shape moderate support for G-77 positions. |
| Jamaica | Access to foreign minerals and manufacturing technology. | Watches technology charges and profit remittances closely. | Sees technology transfer negotiations as integral part of NIEO; activism based more on political than economic concerns; supports G-77 position partly for "logrolling" reasons. |
| Jordan | Access to advanced military and basic and advanced industrial technology. | Seeks increased foreign private investment. | Proposes an international compensatory facility to aid LDCs suffering from the brain drain. |
| Kuwait | Access to modern production methods in light industry, petroleum, and petrochemicals. | Seeks advanced equipment and technical/ managerial services through increased foreign investment. | Supports G-77 stances on technology transfer code and brain-drain issues. |
| Libya | Access to petroleum technology. | Wants to minimize foreign influence in technology transfers. | Seeks technology transfer code to protect national sovereignty. |
| Malaysia | Access to advanced technology, particularly in extractive industries and energy. | Actively seeks foreign investment. | Embraces G-77 demands but maintains a moderate position. |

Key Actors (Continued)

| | | | |
|---|---|---|---|
| Mexico | Seeks assurance that technology costs are not inflated (to mask profit remittances) or charged against outmoded equipment/processes; access to advanced S&T. | Development of indigeneous R&D capability. | Formulates and spearheads LDC demands. |
| Nigeria | Access to technology for development of petroleum sector, heavy and light industry, and agriculture. | Seeks increased foreign investment as a channel for technnology transfer. | Support for G-77 proposals moderated by desire for private investment. |
| Pakistan | Access to technology for the energy sector, including nuclear reprocessing. | Suspicious of large foreign business enterprises. | Supports G-77 proposals for a technology transfer code. |
| Peru | Access to technology for mining, agriculture, and light industry. | Elimination of restrictive business practices that hinder technology transfer. | Supports G-77 prosposals on most S&T issues; advocacy of G-77 stances has decreased markedly over the last two years as external payments problems have mounted. |
| Philippines | Access to basic and advanced industrial technology to upgrade role of manufacturing. | Seeks to control foreign investment in accordance with government development plan. | Actively supports G-77 proposals although S&T issues generally do not have high priority. |
| Saudi Arabia | Access to advanced technology for oil refining and to develop the petrochemical industry. | Technology to develop agricutlure and water resources. | Shows moderate support for G-77 technology transfer code proposals. |
| Sri Lanka | Access to technology with favorable employment effects. | Seeks to stem losses of skilled manpower migration. | Supports G-77 positions on technology transfer code and brain-drain issues. |
| Venezuela | Access to technology for petroleum sector and for its expanding non-petroleum industrial sector. | Seeks controlled increase in foreign investment as a vehicle for technology transfer. | Plays a leading role in promoting G-77 demands; primary drafter of G-77 resolution on obstacles to application of S&T for development. |

would come from a greater G-77 effort to shape technology proposals for early stages of development. Ostensibly, the poorest and smallest LDCs are relying on their bigger and more advanced brothers to look out for their interests in the wide-ranging discussions. Nevertheless, there is not at this stage anything comparable to the second window of the Common Fund to provide the cement for group unity on particular proposals.

**Developed Country Attitudes**

Although showing considerable willingness to discuss the S&T issues, the developed countries thus far have felt little pressure to accede to initial LDC demands or timetables. They typically counter LDC emphasis on easier technology supply conditions with arguments pointing out the need for Third World countries to remove domestic obstacles to their development and to identify problem areas likely to be resolved by the application of science and technology. As this is done, they argue, the related needs for cooperation on S&T will naturally emerge and will often yield to existing technology.

On the questions of appropriate technology transfer and transfer costs, developed country governments are hesitant to intervene in what they view as contractual matters between LDC buyers and private supplying firms. The same attitude influences developed country views on adopting a technology transfer code. The LDCs want such a code to help set internationally binding regulations on profit remittances, royalty payments, and the like. The major industrial countries again feel that voluntary codes like that on MNCs adopted by the OECD in 1976 are the way to handle such matters. Moreover, they note that even the voluntary OECD code proved difficult to achieve because of different views of the proper regulatory roles of governments.

Similarly, LDC technology transfer demands in the aid context are not susceptible to simple solutions. As the dialogue takes shape, the greater emphasis on the interests of high- and middle-income LDCs seems to imply a departure from bilateral programs aimed largely at the poorest. Difficulty in defining security interests also complicates the advanced country responses. In particular, the United States has been unwilling on security grounds to provide certain sensitive technologies to the LDCs; in some cases, developed countries disagree among themselves as to what is sensitive. LDC access to nuclear technology is an especially thorny issue which has produced on open rift between the United States and West Germany.

**Prospects**

Few LDCs probably expect to gain anything more substantial than a technology transfer code in the various international meetings that will take place in 1978-79.

Achievement of a code would not still the rhetoric on technology banks and compensation for brain drain. Here—as in other areas of the North-South dialogue—the G-77 will probe as widely and frequently as possible to see if the developed countries spontaneously suggest some practical equivalents for the Third World's initial demands.

Unless the LDCs devote more technical expertise to timely preparations for next year's UNCSTD negotiations, developments at that forum are likey to parallel this month's UN Conference on Technical Cooperation Among Developing Countries, with the major results being little more than a narrowing of the scope of the now overly ambitious North-South S&T agenda.

Concrete developed country proposals might only heighten the confusion. Given the diversity of the LDCs' S&T interests, a unified G-77 position—beyond broad polemics—will be hard to achieve and sustain at the upcoming meetings in the face of Group B * proposals designed to respond to one or another set of LDC needs. Ironically, such instability poses a danger to the industrialized nations as some Group B * offers made in good faith may be viewed by G-77 actors as calculated attempts to divide the LDCs. Whatever their technological merit, the offers could then be spurned by the G-77 *leadership* for political reasons. The political risk inherent in this is that some LDCs will become restless and—perhaps—confrontational over the failure to achieve more rapid progress in exacting changes in technology transfer processes.

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## BRAZIL: MANUFACTURED GOODS GAINING IN WORLD MARKETS

Aggressive promotion efforts by the military government are enabling Brazil to greatly increase exports of manufactured products to a wide range of developed countries and Third World markets. Although Brazil still ranks well behind South Korea, Taiwan, and Hong Kong as an exporter of manufactured goods, its market inroads have generated strong protectionist sentiment, especially in Western Europe. Given this protectionist sentiment and growing opposition by OECD countries to Brazilian export subsidy programs, Brazil is diversifying its markets and now channels 40 percent of its manufactured exports to Third World countries, a performance rivaled by few other LDCs. With the groundwork laid for more dramatic export gains, we expect the next government led by President-designate Joao Baptista de Figueiredo to continue Brazil's aggressive trade policies and to fight attempts to block Brazilian penetration of foreign markets.

* Group B is the industrialized nations' UN caucus in the North-South dialogue.

Brazil: Destination of Manufactured Exports

| | 1970 | 1977 [1] | Average Annual Percent Growth |
|---|---|---|---|
| | Million US $ | | |
| World | 394 | 3,450 | 36 |
| OECD Countries | 193 | 1,967 | 39 |
| Of which: | | | |
| United States | 67 | 701 | 40 |
| West Germany | 39 | 249 | 30 |
| Japan | 18 | 110 | 30 |
| Italy | 12 | 95 | 34 |
| Canada | 4 | 95 | 57 |
| Latin America | 170 | 935 | 28 |
| OPEC | 11 | 307 | 61 |
| Far East | 7 | 121 | 50 |
| Africa | 6 | 93 | 48 |
| Communist Countries | 7 | 27 | 21 |

[1] Estimated.

## Export Record

Exports of manufactured goods this year are helping to offset drought-induced reductions in agricultural exports and weak world coffee prices. As a result, total exports through June nearly matched the strong first half 1977 performance, a 31-percent increase in foreign sales of industrial products largely offsetting a 26-percent plunge in primary product sales. Exports of manufactured goods are advancing along a wide front as follows:

- Sales of motor vehicles and parts, the star performers, were up 110 percent in the first half from a year earlier.

- Machinery and equipment gained 134 percent through June.

- Textiles and footwear featured the surge in consumer goods shipments while steel products led the advance of intermediate goods.

These gains partly reflect Brazil's aggressive promotion of manufactured exports (since the late 1960s) to spur economic growth and foster industrial efficiency. Under this impetus, exports of manufactured goods reached $3.4 billion in 1977, 30 percent of total exports and 5 percent of manufacturing output. While other LDCs such as Taiwan, South Korea, and Hong Kong sell nearly twice as much, Brazil has posted much larger percentage gains in exports of industrial products in recent years.

Brazil now exports a diverse array of manufactured items ranging from textiles and footwear to aircraft and telecommunications gear. Foreign sales of capital goods—transport equipment, heavy machinery, and electrical equipment—have increased by $1.5 billion since 1970, 50 percent of the overall gain in manufactured exports. Motor vehicles and parts led the advance, soaring from $15 million to $500 million during the period. Consumer products (mainly footwear and textiles) and intermediate goods (especially steel mill products and synthetic fibers) each accounted for about one-fourth of the gain.

Brazil: Leading Manufactured Commodity Exports

| | 1970 | 1977 | Average Annual Percent Growth |
|---|---|---|---|
| | Million US $ | | |
| Manufactures | 394 | 3,450 | 36 |
| Motor vehicles and parts | 15 | 492 | 65 |
| Machinery and instruments | 24 | 427 | 51 |
| Electrical equipment | 17 | 281 | 49 |
| Footwear | 8 | 174 | 55 |
| Cotton yarn | 6 | 120 | 53 |
| Office machinery | 28 | 113 | 22 |
| Noncotton textiles | 9 | 108 | 43 |
| Steel products | 41 | 101 | 14 |
| Clothing | 3 | 99 | 65 |
| Leather products | 16 | 90 | 28 |
| Pig iron | 9 | 89 | 39 |
| Iron alloys | 15 | 80 | 27 |
| Wood manufactures | 27 | 70 | 15 |
| Aircraft and boats | 5 | 50 | 39 |
| Chemicals | 39 | 194 | 26 |
| Other products | 132 | 962 | 33 |

## Market Penetrations

Brazil's assault on the intensly competitive OECD market has been aimed principally at the United States and West Germany, which take about one-half of Brazil's exports to OECD countries. Last year, exports of manufactures to the United States reached $700 million, 10 times the amount sold in 1970. West Germany imported $250 million in 1977, nearly 40 percent of the European Community's total imports of Brazilian manufactures. Brazil only recently succeeded in reaching the $100 million level for its manufactured exports to Japan.

Even with these gains, Brazil still accounts for only about 1 percent of overall OECD imports of manufactured goods. Impressive penetrations have been made in several specific product markets since 1970:

- Brazilian footwear—attractively styled and reasonably priced—has increased its share in OECD import markets from 1 to 5 percent.

- Sales of textile fabrics and yarn to OECD markets have quadrupled and now account for 2 percent of OECD imports of these products.

- Brazilian auto parts, telecommunications gear, and office machinery have each garnered close to 1 percent of the OECD import market as multinational companies are discontinuing certain product lines elsewhere in favor of their Brazilian subsidiaries.

Major competitive gains have been achieved in the import markets of the larger OECD countries. Brazilian manufactures—led by textiles, steel, and general machinery—have captured more than 1 percent of the West German, Italian, and Dutch import markets (these share calculations exclude intra-EC trade). Powered by footwear, textiles, and auto parts, Brazil is fast approaching the 1-percent level in the United States and Japan and is gaining ground in the United Kingdom. In contrast, few gains have been scored in the Canadian, Swiss, and Nordic markets, and ground has been lost in Spain.

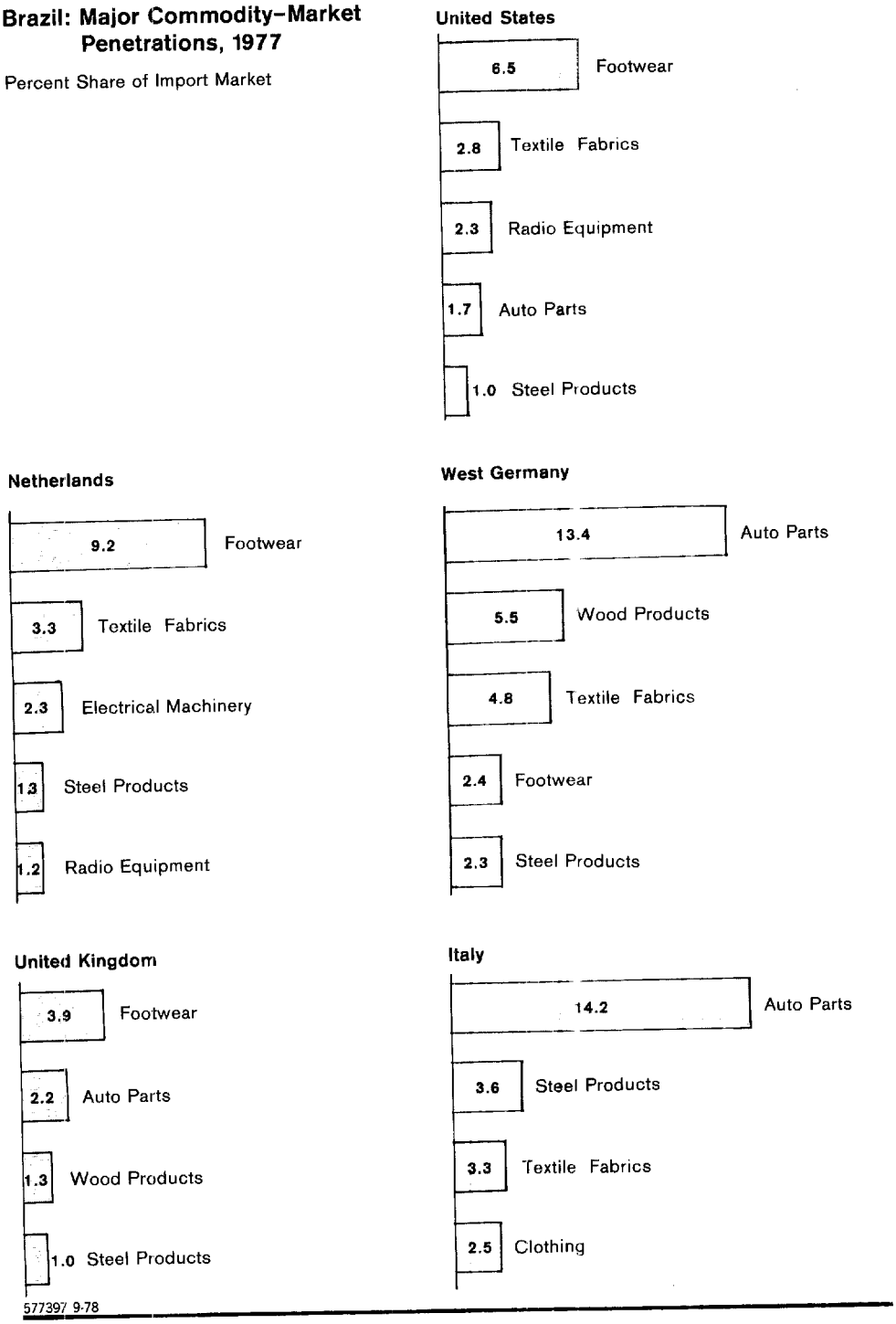
Manufactured products from Brazil have advanced in a host of Third World markets. The major inroads have been in Latin America, the largest LDC market. High quality, competitive prices, and transport cost savings have helped boost the market share of Brazilian steel products throughout the region. Individual tariff concessions negotiated through the Latin American Free Trade Association have also aided Brazil's market advance. IBM, for example, now serves the entire Latin American market for large computer mainframes from its Brazilian subsidiary. Dramatic gains also have been recorded in the OPEC, African, and Far Eastern markets, where sales increased from negligible amounts in 1970 to $520 million last year.

### Competitive Factors

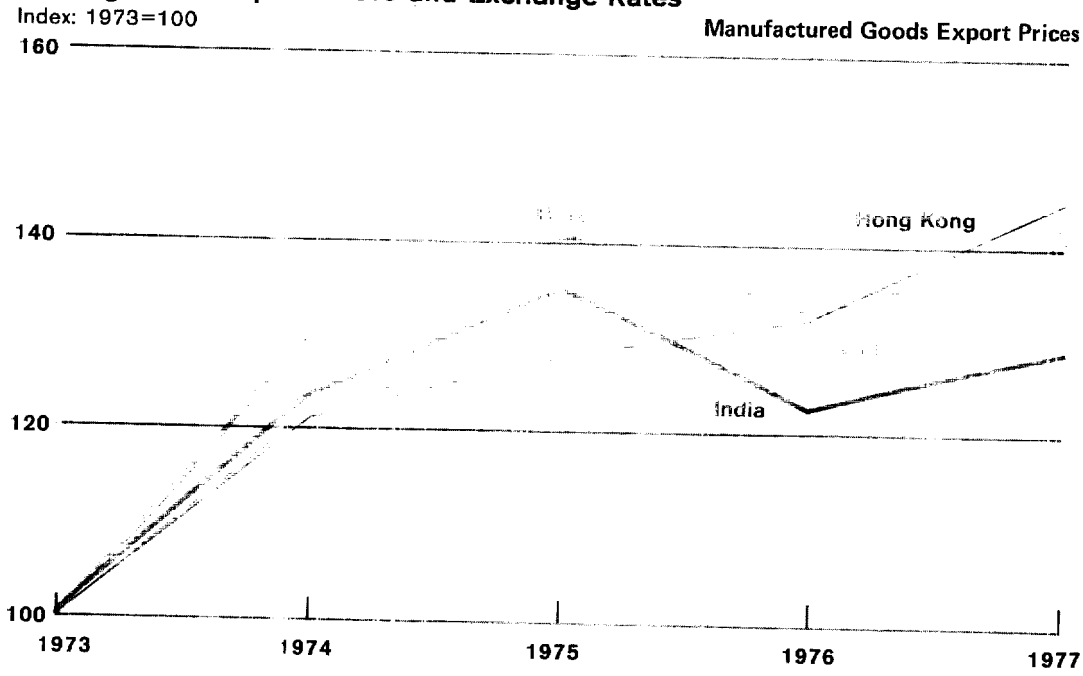
Brazil has done a good job in maintaining the competitiveness of its manufactured products. Despite a 27-percent annual inflation rate since 1970, average dollar prices of manufactured exports have risen only 10 percent yearly—close to the averages for other leading LDC exporters such as South Korea and Hong Kong. This primarily reflects repeated devaluations of the cruzeiro during the period, a sweeping export subsidy program, and the country's ability to achieve substantial productivity increases in the manufacturing sector. In holding down labor costs, Brazil has particularly benefited from rapid gains in productivity resulting from increasing scale of operations, advancing technology, and accumulating managerial experience. Brazil

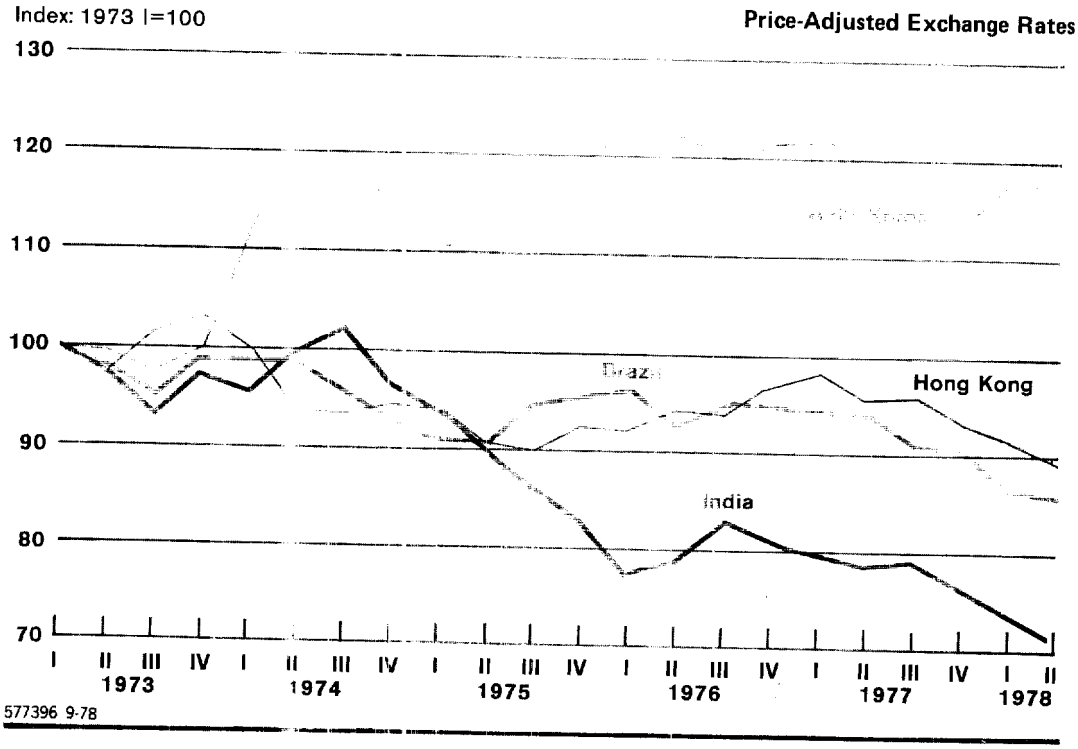
## Brazil: Major Commodity-Market Penetrations, 1977

Percent Share of Import Market



## Leading LDCs: Export Prices and Exchange Rates



has also been helped by one of the best disciplined and educated labor forces in Latin America.

Multinational corporations play a key role in Brazil's export plans. Brazil is assuming growing importance in the multinationals' world production systems, especially as a base for supplying LDC markets. Ford, for example, has recently completed a $100 million plant to export small four-cylinder engines to its worldwide subsidiaries, while Hughes Tool is currently expanding capacity to supply oil drill bits for the Latin American market. We estimate that last year multinational subsidiaries exported a minimum of $1.3 billion in manufactured products, accounting for more than one-half of exports of automotive vehicles and parts, chemicals, electrical machinery, industrial equipment, motors, pharmaceuticals, and telecommunications gear.

Brazilian marketing is also becoming more aggressive. Attractively styled products are enhancing Brazil's reputation in developed country markets. The Puma sports car, manufactured by a Brazilian firm, has recently won plaudits in the European Community for its sleek appearance and economical operation. Efficient distribution systems are complementing Brazil's improved product image. Exporters, for example, are setting up centralized warehouses in major markets to speed delivery and foster reorders. To gain a competitive edge against developed country suppliers in Third World markets, Brazil is advertising the durability of its goods, their superior performance in tropical climates, and their simplicity of operation. Last month, Brazil launched the TAMA line of electrical appliances into Nigeria by having soccer star Pele trumpet these themes in a large-scale advertising campaign.

Government and private trading companies are also adding new muscle to export promotion programs. These have been formed since 1972 to assist manufactures in developing export strategies to finance production for export and to assume the commercial and political risk in selling abroad. Last year, for example, the government-controlled INTERBRAS group financed the sale of 7,200 Massey-Ferguson tractors to Turkey and capitalized on the buying power of PETROBRAS, its parent firm, to arrange the sale of 24,000 Volkswagens to Algeria in exchange for oil. Brazilian trading companies chalked up an estimated $1.2 billion in foreign sales last year, compared with only $200 million in 1975.

## Government Policies

New export policies are sparking the growth of manufactured exports. The process begun in the late 1960s when the government scrapped obstacles to manufactured exports—abolishing the restrictive licensing system, eliminating taxes on manufactured exports, and cutting paperwork requirements. Brasilia streamlined

export administration by centralizing operating policy in the Foreign Trade Department of the Bank of Brazil (CACEX). CACEX also administers the export financing fund (FINEX), which channels subsidized credits from the Central Bank to exporters.

A wide range of tax and credit incentives are being used to stimulate the growth of manufactured exports. Fiscal subsidies—credits given on federal and state value-added taxes plus federal income tax exemptions—are at the heart of the promotion system. Exporters also qualify for exemptions from value-added taxes and from tariffs on imports used in export production, as well as for a wide range of incentives to finance export sales at subsidized interest rates. In 1975, Brazil provided $500 million in incentives—nearly 73 percent in the form of subsidies considered illegal by GATT members—for manufactured products amounting to 28 percent of the value of these exports. According to estimates by a Brazilan research group (The Central Foundation for the Study of Foreign Trade), textile products, such as yarn, received incentives equal to 51 percent of export value while subsidies and credits to cotton fabrics totaled 46 percent. Other key export items receiving incentives in excess of 25 percent of total value include motor vehicles, industrial machinery, consumer appliances, shoes, pig iron, chemical products, and auto replacement parts.

In addition to subsidies, Brazil is now more aggressively using exchange rate policy to help assure the competitiveness of manufactured products in the face of rapid domestic inflation. Indeed, exchange devaluations have overcompensated for relative price movements; the price-adjusted, trade-weighted exchange rate index declined to 86 in second quarter 1978 compared with 100 in first-quarter 1973. Brazil also takes full advantage of the tariff reductions granted under the major Generalized System of Preference (GSP) programs to penetrate industrial country markets. In 1976, for example, Brazil exported $380 million in manufactured products duty free under GSP, or 15 percent of its total foreign sales of manufactured items.

The benefits of GSP to Brazil have been partially offset by growing nontariff barriers. Recently, the European Community has pressured Brazil into accepting quantative restrictions and price floors on textiles, soybean oil, and steel. Moreover, a few Brazilian manufacturers have been the targets of countervailing duties imposed by the United States, the United Kingdom, and Canada. Footwear has been particularly hard hit; its phenomenal export growth being sharply curtailed.

This year, growing debt service payment and import requirements are moving policymakers to intensify promotional efforts. Brasilia has taken more and bigger risks in financing exports, improved the export credit insurance scheme, accelerated the pace of the minidevaluations, and increased the capitalization of government-owned trading companies.

### Looking Ahead

We expect Brazil's manufactured exports to continue their rapid advance in the years ahead. If world market conditions remain stable, these exports could almost double by the early 1980s, compared with the expected $4.5 billion for 1978. This rise would primarily reflect the continuation of aggressive marketing policies, the rapid growth of Brazil's industrial base, the maintenance of its international competitiveness, the export orientation of manufacturers, and chronic worldwide inflation. The advance is likely to be led by autos and parts, machinery, paper, chemicals, and electrical equipment.

Brasilia probably will be forced over the coming years to modify the form of its current subsidy programs for manufactured goods to head off countervailing duties and other nontariff restrictions. These programs also are coming in for mounting criticism from some Brazilian businessmen as mainly benefiting multinational and state-owned companies. Although concerned, policymakers are unlikely to give much ground because of the importance of subsidies to maintaining rapid export growth.

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## IRAN: MASSIVE RISE IN FOOD IMPORT NEEDS

Now running at $2 billion a year, Iranian food imports could easily triple by 1985 despite the recommitment of the Sharif-Emami government to the farm sector. The substantial rise in real incomes since the 1973/74 oil price hikes, coupled with rapid population growth, has catapulted food consumption far beyond domestic agricultural capacity. Iran, a net exporter of farm products a decade ago, already purchases a quarter of its food needs abroad. With the outlook for accelerated production gains dim, this ratio could rise to 30 percent in the next seven years, even though food consumption as of share of GNP will continue to fall. In the absence of a substantial increase in oil prices, the Shah will have to cutback politically sensitive food purchases or military/capital goods imports to avoid a payments crunch in the early 1980s.

### Food Imports Surge

In the past seven years, Iranian food imports have risen an incredible 48 percent annually. Despite sizable increases in military and industrial imports associated with

the Shah's modernization drive, foreign food purchases have increased 5 percentage points as a share of total imports, to 15 percent. As their incomes have gone up, Iranian consumers have demanded not only more food products but also higher value items such as red meat and fresh fruit, which the domestic economy cannot supply in sufficient quantity.

Reflecting new consumer tastes, the composition of food imports has changed considerably. Sugar products from India and raw sugar from Thailand now constitute a fifth of total food imports, compared with an average of only 7 percent in the early 1970s. Fruits and nuts, meat, and tobacco also have increased their shares while

Iran: Major Agricultural Imports [1]

| | Major supplier | Average 1970-72 Million US $ | Average 1970-72 Percentage of agricultural imports | Average 1974-76 Million US $ | Average 1974-76 Percentage of agricultural imports |
|---|---|---|---|---|---|
| Grains and cereals | United States | 65 | 32 | 452 | 30 |
| Sugar and products | India | 15 | 7 | 308 | 20 |
| Fats and oils | United States | 49 | 24 | 223 | 15 |
| | West Germany | | | | |
| | Others | | | | |
| Fruits and nuts | Jordan | 5 | 2 | 124 | 8 |
| | South Africa | | | | |
| | Others | | | | |
| Dairy and poultry products | Netherlands | 16 | 8 | 93 | 6 |
| Meat | Australia | 8 | 4 | 88 | 6 |
| Live animals | Australia | 10 | 5 | 61 | 4 |
| Tobacco | United States | 1 | Negl | 36 | 2 |
| | | | Percent of total imports | | Percent of total imports |
| Total agricultural imports | | 205 | 10 | 1,516 | 15 |

[1] Data are for the Iranian year beginning 21 March of the stated year.

traditional grain and cereal imports—largely from the United States—have held steady at close to a third of total food imports. Fats and oils, once a major item, have fallen sharply as a share of the total. Although the United States remains Iran's number one agricultural supplier, the less developed countries have benefited the most from the change in food tastes.

Iran: Major Suppliers of Food and Live Animals

| | 1970-72 Rank | 1973-75 Rank |
|---|---|---|
| United States | 1 | 1 |
| India | 4 | 2 |
| Australia | 2 | 3 |
| Argentina | 5 | 4 |
| Brazil | 13 | 5 |
| Thailand | 9 | 6 |
| Netherlands | 3 | 7 |
| West Germany | 10 | 8 |

## Demand Outpaces Production

Total food consumption (in real terms) has risen 10 to 12 percent a year in the 1970s compared with a population growth of 2.8 percent annually. Food expenditures, an important item in the Iranian family budget, have constituted 40 percent of urban family outlays and almost two-thirds of rural family spending. Demand has been augmented not only by increased income but also by government food subsidies, estimated at $1 billion last year and by price controls on many food items.

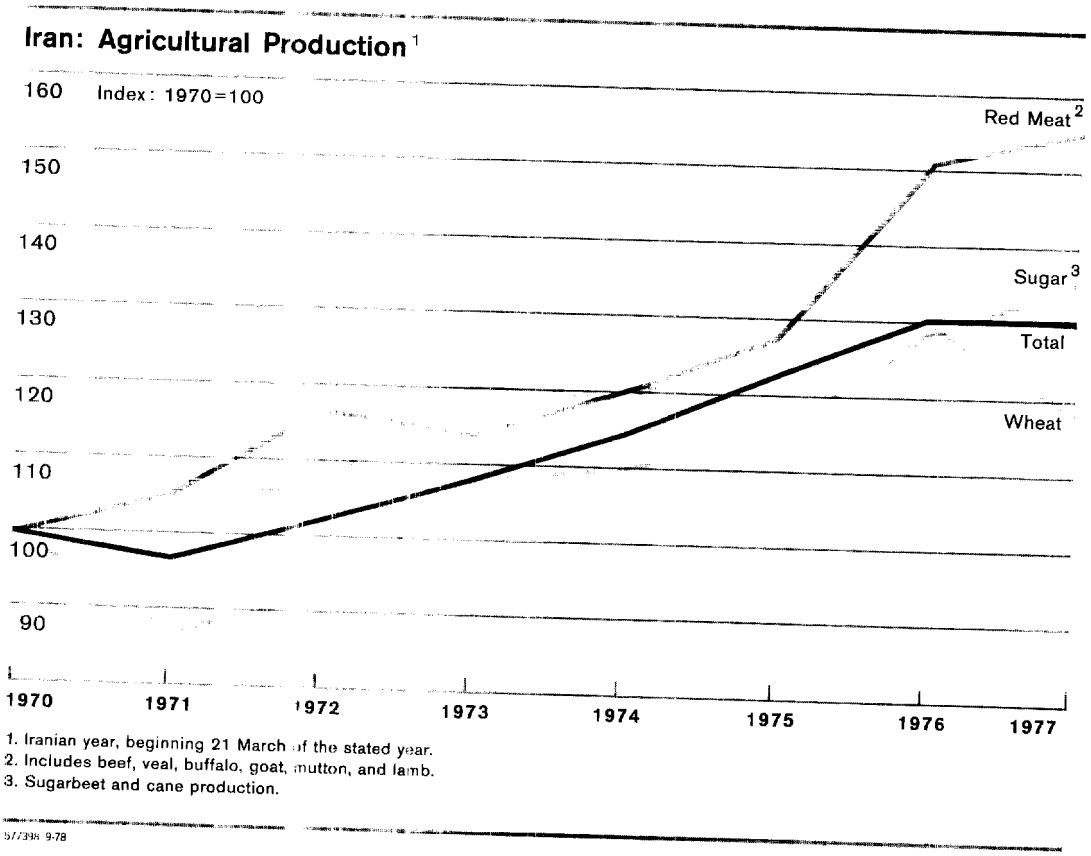
Production of food, on the other hand, has grown only 3.8 percent a year in the past eight years, leaving a widening gap to be filled by imports. In 1977 * agricultural output actually fell 0.8 percent, as bad weather sharply reduced the wheat harvest. Labor shortages and marketing problems also contributed to the decline in farm output. Domestic production of commodities for which demand has increased most rapidly has usually grown more than the average rate. Meat, poultry, and dairy production has done exceptionally well. Red meat output, for example, has risen 8.6 percent a year since 1969.

Agricultural self-sufficiency has declined markedly over the 1970s. Wheat output at 5 million tons in 1977 covered only 77 percent of domestic requirements, down substantially from about 95 percent in the 1960s. Cane and beet sugar production at 650,000 tons last year accounted for less than two-thirds of local needs, compared with full self-sufficiency earlier.

## Government Policy: From Land Reform to Neglect

Governmental emphasis on agriculture has varied considerably in the past 15 years. Capturing a major part of the Shah's attention in the 1960s, the farm sector in

* Data are for the Iranian calendar year, which runs 21 March to 20 March.




the 1970s has been largely ignored during the industrial development push. More recently, the Sharif-Emami government has promised to jack up agriculture's priority in the development program.

The modernization of Iranian agriculture started in 1962 when the Shah undertook major land reform. Up to that point, agricultural conditions in Iran could be described as medieval in ownership and primitive in technology. From a political standpoint, things went remarkably well for the Shah—the redistribution of huge private estates weakened the political base of Iran's once all-powerful landowning classes. Economically, the program had a positive, though unspectacular, impact. The security of land tenure proved an important stimulus to the new landowners to undertake improvements; the use of farm machinery and fertilizers grew substantially.

In the 1970s, agriculture has been the stepchild of the government development efforts. Even though the revised 1973-78 plan allocated $4.5 billion to farm development, only about 45 percent of the amount budgeted for agriculture was

spent. Furthermore, inflationary cost increases, lack of valid projects and agricultural expertise, and shortages of material and farm labor dulled the effects of the actual expenditures.

The Sharif-Emami government, installed in late August, has announced that agriculture and rural development will be given top priority in the future. Such proclamations have been made repeatedly in recent years, however, and chances of attaining the avowed goal of "relative self-sufficiency" in food remain low. The one concrete proposal reportedly made by the new government so far is for removal of taxes on incomes from agricultural and livestock production. Reviews of public programs concerning product prices and other farm policies have been mentioned, but no measures have been spelled out.

Generally, agricultural policy will likely continue to aim at strengthening marketing through guaranteed prices, government purchases of crops, and producer subsidies for critical commodities. Local marketing, processing, and storage facilities may receive additional financing, while public agencies will continue to play an important role in importing, distributing, retailing, and financing agricultural production.

**Persistent Problems in Domestic Production**

Regardless of renewed emphasis, agriculture suffers from a number of disadvantages that will will be difficult to overcome. Water availability, for instance, remains a major problem, although some progress has been made in increasing irrigation. Many of the country's important crops still are grown by dry-land farming, making them extremely vulnerable to weather conditions. While 19 percent (31 million hectares) of Iran is classified arable, less than 6 percent is under cultivation. Of this area, only 45 percent receives some irrigation.

Labor also has emerged as a constraint on agricultural expansion in the past few years. Farm workers are increasingly difficult to find as the government's industrialization drive has drawn large numbers of people into the cities. Although real per capita income countrywide has grown by 60 percent since 1972, city dwellers reportedly receive incomes five times those of the rural population. Urabn migration and industrialization are creating a secondary problem as farmland, particularly in the agriculturally valuable Caspian Sea area, is taken over for manufacturing, commercial, and residential uses.

Despite government efforts to encourage the consolidation of small farms and the development of agribusiness, Iranian agriculture still suffers from inefficient production practices and small-scale operations. About 40 percent of the total value of

agricultural production currently comes from farms of ten hectares or less. The highly publicized agribusiness developments, jointly undertaken with US and other foreign investors, have not panned out in most cases. Tehran blames the failure on lack of capital and management expertise, whereas the main difficulties actually seem to lie in backward infrastructure and inadequate manpower.

Wastage of both imported and domestically produced foodstuffs constitutes a major problem. Inefficient marketing organization coupled with inadequate handling, transportation, and storage facilities has led to crop and food losses estimated at 20 to 30 percent in some cases.

**Outlook: More of the Same**

Food imports will undoubtedly grow rapidly in the next several years as consumption continues to outstrip domestic production. Although growth in demand will moderate from its previously fast pace, it will remain high—at least 6 to 8 percent per annum. The Iranian government is apt to retain its food subsidies and to allow massive food imports—into the early 1980s and perhaps longer—to help offset worker dissatisfaction with inflation and income inequality. At the same time, real farm production is unlikely to expand on average more than 3 to 5 percent a year.

Barring a major government effort to choke off growth in food imports, we believe that the value of foreign food purchases could easily grow 15 to 17 percent a year through 1985. At these rates, the food import bill would triple to more than $6 billion at today's exchange rates. This projection assumes for 1978-85:

- Average annual nominal GNP growth of 18 percent.
- A further but less rapid decline in the ratio of food expenditures to GNP.
- A 15-percent average annual increase in the nominal value of domestic food output.

Given a food import bill of this magnitude in the early-to-mid 1980s, the Shah may be forced into some difficult decisions concerning import priorities. Unless oil prices rise substantially, declining oil export volume will produce a sizable current account deficit by 1981. At that time, the Shah may be required to moderate either politically sensitive food imports or imports of capital/military goods to avoid a quick rundown in foreign assets, which now total about $18 billion.

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# SWITZERLAND: STABLE AND CONTENT

Switzerland has come through the global recession in good shape with its figures on inflation, unemployment, and the current account the envy of most other countries. To a large degree, troubles have been deflected to other countries via appreciation of the Swiss franc, a repatriation of foreign workers, and continued strong exports. The outflow of guest workers has kept unemployment minimal even though real GNP was less in 1977 than five years earlier. The rising franc has both contributed to and reflected a low rate of inflation. While the steep rise in the exchange rate over the past year may slow growth of both exports and GNP, Bern is likely to maintain its present stabilizing fiscal and monetary policies.

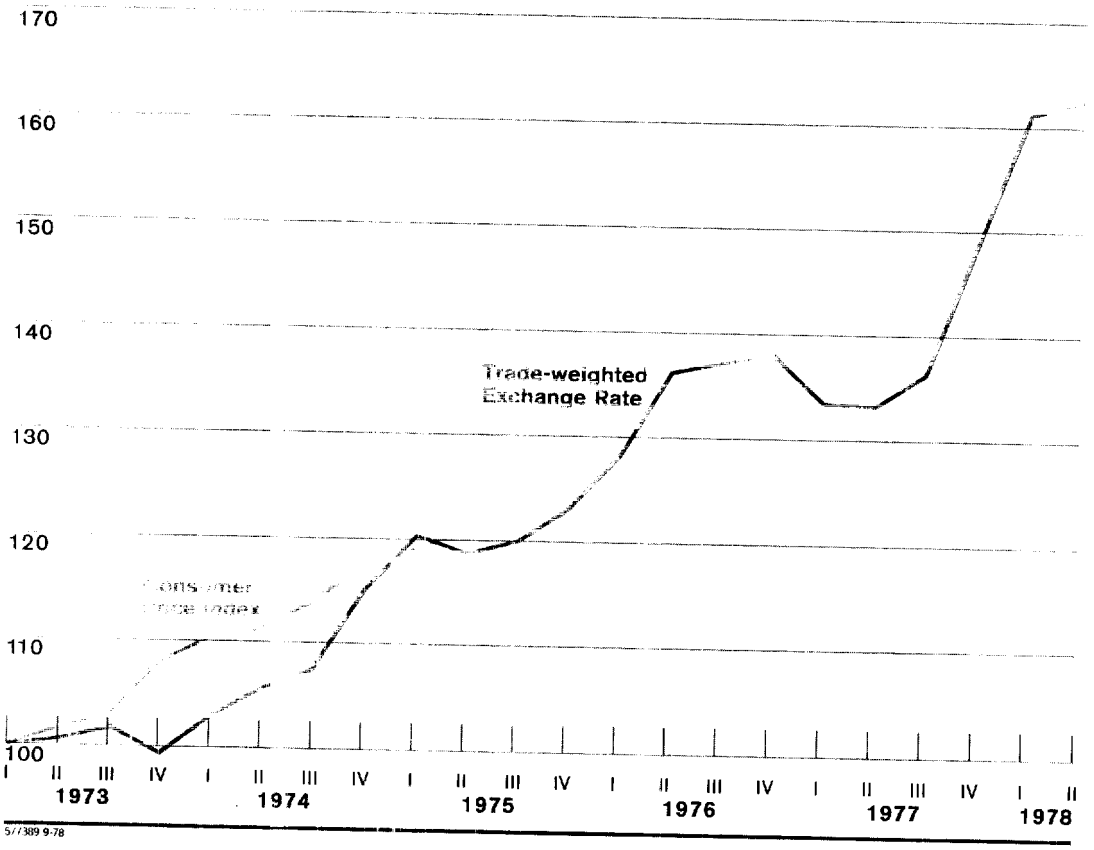
## Few Recession Scars

Switzerland's economic slowdown, precipitated by rising oil prices and falling external demand, was deepened by strict anti-inflation policies adopted late in 1974. While unemployment remained low throughout the recession, real GNP declined nearly 8 percent in 1975 and dropped another 1.3 percent in 1976. Fueled by stimulative fiscal policy and a surge in exports, growth resumed in 1977 although last year's 3.7 percent gain still left real GNP 5.4 percent below the 1974 high. The Swiss franc, meanwhile, has appreciated almost continuously from 1973 to the present, driven upward by inflation differentials and by its popularity among foreigners as an inflation hedge. With imports equal to more than 25 percent of GNP, the rise in the franc dampened consumer prices; last year they rose only 1.3 percent.

Switzerland's success in withstanding the economic downturn has been due mainly to two factors: a stunning 10-percent reduction in the labor force since 1973 and export buoyancy in the face of the persistent franc appreciation. The number of guest workers was cut by more than one-half mainly through limitations on work permits and preferential job treatment for nationals. As a result, Switzerland weathered the recession without the unemployment rate ever rising above 1 percent; by last year it had declined to 0.3 percent. Foreign workers numbered 577,000 in 1973—about one-fifth of the labor force—with the majority from Italy and large numbers also from Spain, France, Yugoslavia, and West Germany.

Swiss exports remained strong throughout the recession for various reasons, including product specialization, aggressive marketing, and the favorable effect of the low Swiss inflation rate on export prices. In the past few years, industry has made ambitious efforts to tailor production to changing demand. specialization has made many Swiss products relatively insensitive to price increases. Sales of optical, medical, and measuring instruments, electrical machinery, precision tools, household appliances, and furniture have done especially well. The Swiss watch industry won a place

**Switzerland: Price and Exchange Rate Movements**




for itself in the electronic field after initially yielding ground to electronic watches produced elsewhere. Swiss exporters also have successfully cultivated markets in the oil exporting countries; sales of machinery to the oil exporters rose 35 percent last year in franc terms. Finally, from 1973 through 1977 inflation differentials canceled out much of the effect of franc appreciation on export prices. Switzerland's competitive position vis-a-vis major trading partners deteriorated only 5 to 10 percent in this period.

### 1978 Performance

Real GNP growth is expected to slip to about 3 percent this year, primarily because the recent rise in the Swiss franc (about 30 percent on a trade-weighted basis since August 1977) has far outstripped inflation differentials, threatening exports and

Switzerland: Current Account

Million US $

| | 1973 | 1974 | 1975 | 1976 | 1977 |
|---|---|---|---|---|---|
| Current account balance | 280 | 171 | 2,587 | 3,518 | 3,782 [1] |
| Trade balance | −1,685 | −2,109 | 98 | 439 | 148 [1] |
| Exports (f.o.b.) | 9,722 | 12,154 | 13,223 | 15,036 | 17,839 [1] |
| Imports (f.o.b.) | 11,407 | 14,263 | 13,125 | 14,597 | 17,691 [1] |
| Services and transfers balance | 1,966 | 2,280 | 2,488 | 3,078 | 3,635 [1] |
| Of which (net): | | | | | |
| Banking and insurance revenues | 1,625 | 2,130 | 2,136 | 2,278 | 2,500 [2] |
| Remittances | −563 | −584 | −535 | −412 | −400 [2] |
| Tourism | 834 | 849 | 972 | 984 | 1,040 [2] |

[1] Preliminary.
[2] Estimated.

tourism and dampening investment. Exports have held up remarkably well so far but may soon begin to feel the lagged effects of the past year's appreciation. In first half 1978 export volume was up 9 percent from a year earlier, a bit less than last year's 11-percent first half increase. With imports responding to franc appreciation, the six-month trade balance was unchanged from 1977. Tourism reportedly is down this year, but rising returns from lending abroad and a continuing decline in remittances by foreign workers should help the current account top last year's $3.8 billion surplus.

Another factor in this year's expected slowdown is fiscal policy, which has been less stimulative in the past year and one-half because the Swiss—like the West Germans—greatly fear the inflationary effects of large budget deficits. When Swiss voters rejected a proposal last year to levy a value-added tax, government authorities felt they had no choice except to reduce planned expenditures. Government policy and franc appreciation have combined to hold the increase in consumer prices to an annual rate of less than 1.5 percent thus far this year; wholesale prices have actually declined slightly.

The central bank has tried to reduce pressure on the Swiss franc and maintain domestic activity through selective intervention in the exchange market and an accommodating monetary policy. Money supply targets have been exceeded in recent years due to the selling of francs to hold down exchange rates; during first quarter 1978 the money supply expanded at more than twice the scheduled annual rate of 5 percent. In February, the bank took several steps to dampen foreign demand for francs, including a reduction in the discount rate, an increase in the share of foreigners' franc deposits subject to a 10-percent quarterly charge, and a ban on most purchases of Swiss securities by nonresidents.

**Caution to Prevail**

Bern is likely to continue its present policy course; major new measures to hold down the exchange rate or boost domestic demand are not in the cards. The OECD this year urged Switzerland to reduce its current account surplus by stimulating domestic demand, citing the impact of the surplus on exchange markets and the need for all OECD countries to share the OPEC-induced deficit. Government officials, however, have a dominant anti-inflation bias and perhaps an underlying fear that a resurgence in economic activity would revive social problems by bringing a large-scale return of foreign workers. They also incline to the view that the international market forces pushing up the franc are too strong for Switzerland to counter unilaterally. None of the major political parties are pushing for a substantial shift in economic policy.

In the wake of growing business complaints that appreciation of the franc has begun to hurt exports, the government is preparing a plan to give selective aid to small- and medium-sized firms. Bern generally has declined to subsidize manufacturers unable to compete internationally and is presumably acting now because the franc's latest rise is so out of proportion to inflation differentials. The plan will be limited in scope to start with and probably will not expand much unless the unemployment rate rises substantially. Bern looks favorably on efforts by the European Community to stabilize exchange rates through a European Monetary System and probably would try to tie the Swiss franc into such a system. 25X1

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## USSR: IMPACT OF WESTERN CHEMICAL EQUIPMENT ON PRODUCTION AND FOREIGN TRADE *

The USSR has depended heavily on Western equipment and technology to upgrade backward sectors of its chemical industry, spending about $9 billion in scarce foreign exchange for this purpose since 1960—almost $4 billion since 1975. Even so, the USSR remains a large net importer of chemicals, more than $1 billion worth in 1977. Recent Soviet purchases of Western chemical equipment and technology have often been part of long-term buy-back arrangements. Although exports under these agreements have barely started, Western chemical producers are already worried because the USSR has been cutting prices in depressed world markets. By the 1980s Soviet exports of petrochemicals, fertilizers, and synthetic materials could be a major disruptive force.

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## Imported Technology: Effect on Domestic Development

Western equipment and technology have been a key factor in raising Soviet output of several major chemical products such as fertilizers and synthetic materials. In some cases the imports have also led to sizable economies in construction and production costs. Construction of Western-supplied chemical plants takes one-half the time required to build domestically supplied plants. Western-equipped ammonia plants use only about 5 percent of the electric power and one-tenth to one-third as many workers per ton of output as are required by Soviet-designed plants. At the same time, poor planning, inferior management, and inadequately trained workers have prevented the USSR from realizing the full potential of Western equipment.

## Growing Impact on World Markets

Rapidly growing domestic requirements for chemicals have thus far limited the exports of Soviet chemicals produced in Western-equipped installations. This situation will soon change, however, as chemical products supplied under recent buy-back agreements show up on world markets. These deals commit Western firms to long-term (8 to 12 years) purchases of Soviet chemicals, usually from the imported facilities. Estimated Soviet chemical sales under buy-back provisions agreed to through 1977 should exceed $300 million annually by the early 1980s. In addition to the growth in buy-back exports, the USSR will no doubt increase direct exports of chemicals made in Western-equipped plants.

## Export Prospects for Selected Major Chemicals

Western chemical markets that will be hit hardest by the influx of Soviet-origin chemicals include markets for ammonia, urea fertilizer, plastics and related intermediates, and methanol.

- Annual Soviet sales of ***ammonia*** to the West under long-term agreements could exceed 3 million tons by 1980, almost equaling world ammonia exports in recent years. These exports will enter a highly competitive market.

- Soviet ***urea fertilizer*** exports—over 925,000 tons in 1977—may increase by nearly 1.2 million tons annually in 1980 as a result of known buy-back and counterpurchase agreements. These exports will enter a world market already bedeviled by overcapacity.

- Large capacities purchased under buy-back agreements will provide much larger exports of ***plastics*** and related intermediates—polyethylene, poly-

Selected East-West Compensation Agreements

| Year Signed | Equipment Ordered | Contract Value (Million US $) | County of Supplying Firm | Product Buy-back |
|---|---|---|---|---|
| USSR | | | | |
| 1977 .... | Two methanol plants | 275 | UK | Methanol: 300,000-350,000 tons annually for 10 years starting 1981/82. |
| 1977 .... | High-density polyethylene plant (HDPE) | 86 | UK | HDPE: 160,000 tons.[1] |
| 1976 .... | Two urea plants | 102 | Italy | Ammonia: 250,000 tons annually for 10 years starting in 1978. Urea and acrylonitrile: unspecified amounts. |
| 1976 .... | Ethylene oxide plant | 80 | West Germany | Monethylene glycol: 120,000 tons annually for 8 years. |
| 1975 .... | Two urea plants | 116[1] | Italy | Ammonia: 100,000 tons annually for 10 years starting in 1979. |
| 1975 .... | Caprolactam plant | 195 | Italy | Caprolactam: more than 200,000 tons.[1] |
| 1975 .... | Polyvinyl chloride (PVC) plant | 68 | West Germany | PVC: 8,000 tons annually. Vinylchloride: 10,000 tons annually for 10 years starting in 1977. |
| 1974 .... | Four ammonia plants | 220 | France | Ammonia: 300,000 tons annually for 10 years starting in 1978. |
| 1973 .... | Styrene, polystyrene, ethyl benzene complex | 100 | France | Polystyrene: 24,000 tons annually for 8.5 years starting in 1979. |
| 1972 .... | Polyethylene plant | 39 | West Germany | Polyethylene: total of 250,000 tons over 8.5 year period. |
| 1974 .... | Four ammonia plants | 215 | US | |
| 1974 .... | Fertilizer handling facilities | 100 | US | Ammonia: (US firm will purchase 9 million tons in 1978-87).[2] |
| 1975 .... | Ammonia pipeline | 300 | France—US | |

[1] Estimated.

[2] In addition, a noncompensation agreement calls for the US firm to purchase 30 million tons of ammonia and 20 million tons each of urea and potash during 1978-97. In exchange, the USSR will purchase 20 million tons of superphosphoric acid, used in producing fertilizers.

vinyl chloride, polystyrene, vinyl chloride, benzene, and xylenes. Overcapacity of several of these products has depressed prices in world markets.

• ***Methanol*** exports—256,000 tons in 1977—may increase by 300,000 to 350,000 tons annually just from buy-back agreements associated with the purchase of two Western plants that will be the largest in the world. The effect on world markets will depend largely on how rapidly new uses for methanol develop (especially as an energy source) and on how much capcity is built elsewhere.

In the meantime, West European markets have already been disrupted by low-priced Soviet chemicals entering depressed markets. Soviet low-density polyethylene (LDPE), used in payment for delivery of chemical plants purchased from West Germany, sold as much as 40 percent below prevailing market levels in 1977. The European Commission is reviewing charges that Soviet and East European sales of styrene butadiene rubber have been made in Western Europe at prices 20 to 30 percent below local manufacturers' prices. To cope with low-priced imports, the West European chemical trade association (CEFIC) has developed plans to establish reference prices based on manufacturing costs of the most efficient West European chemical producers. These would be used as a gauge in dumping cases when it is not possible to obtain prices and costs from the country of origin. As yet it is uncertain whether these plants will be adopted as a single criterion by the EC Commisssion, although they may be used as an early warning measure within existing procedures.

**Painful Adjustments Ahead**

The Soviet bulk chemical products entering Western markets clearly will be difficult to absorb. The United States, which will be affected mainly by Soviet ammonia, will also be receiving ammonia from Canada, Mexico, and Trinidad. Some US production units have already been shut down. Other Soviet chemical products will be sold principally in West European markets, the largest foreign market for US chemical products.

The depressed state of world markets for certain major chemical products (ammonia, nitrogen fertilizers, plastics) is expected to persist at least through 1983-85. As a result, the USSR may earn less than initially envisioned. If world markets prove unable to fully absorb Soviet-origin chemicals (ammonia is a likely candidate), some existing compensation agreements may require revision.

With the shift in the market outlook, Western chemical firms are becoming reluctant to sell technology to the Soviet Union under terms that require them to

accept downstream chemical products that already are a glut on the market. The Western firms prefer to take petroleum feedstocks that will permit more flexibility in end-use, but the Soviets have usually balked at providing these products. Frequently, the Ministry of the Chemical Industry claims that such arrangements are hard to work out because the chemical feedstocks are produced in another ministry. Soviet negotiations with Western countries for a large Siberian petrochemical combine at Tomsk, which could involve contracts valued at more than $2 billion, have been hindered by disagreements regarding buy-back products.

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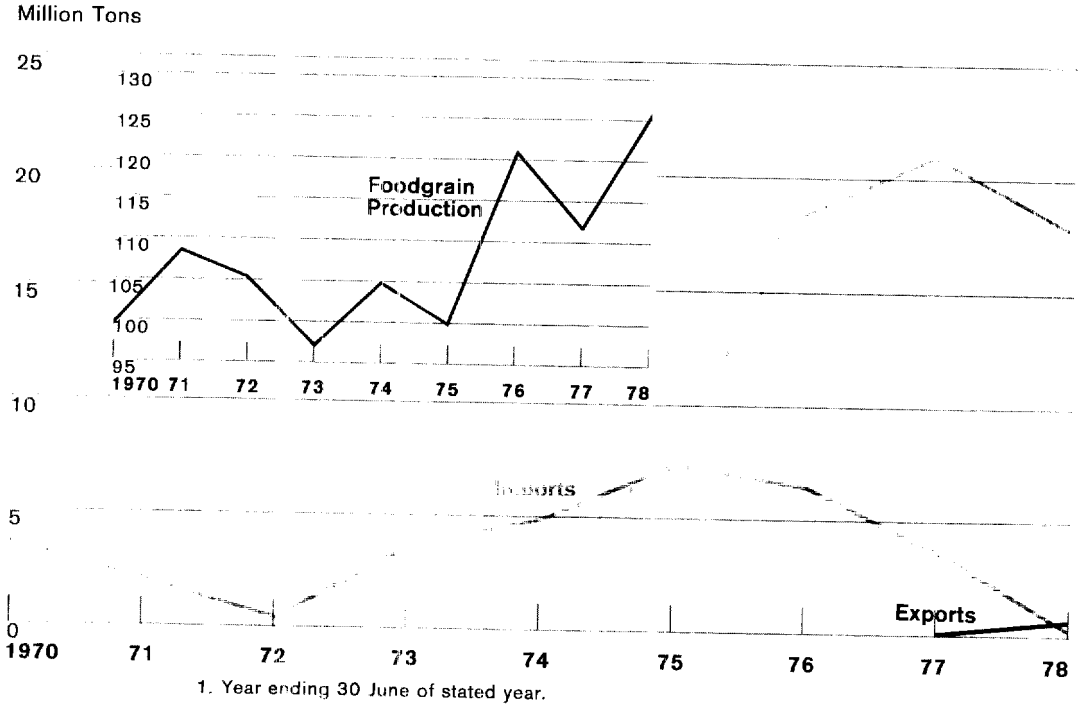
## Note

### Indian Crop Prospects Good Despite Flooding

We foresee another above average harvest in the crop year that began on 1 July despite severe flooding in northern India. Monsoon-grown summer crops, largely rice,

**India: Foodgrain Situation**[1]




1. Year ending 30 June of stated year.

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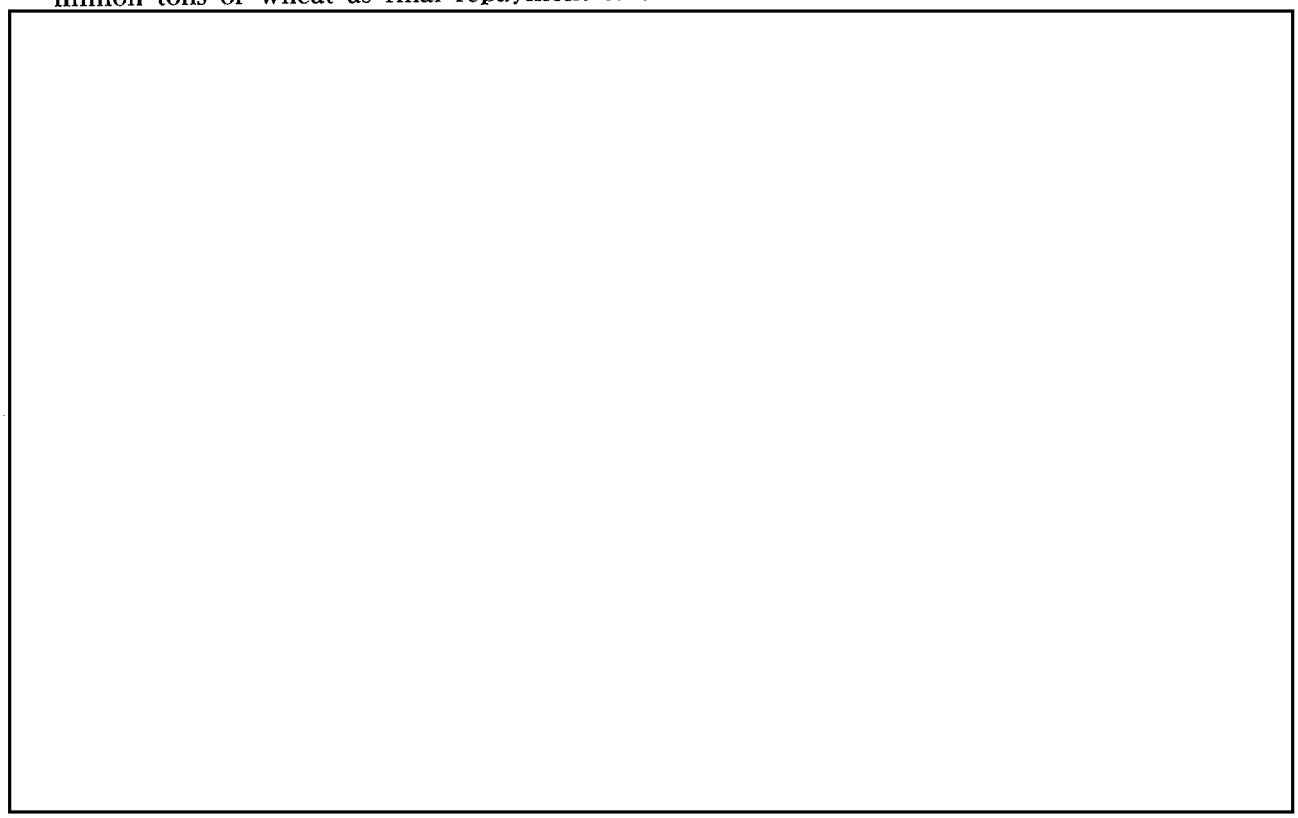
have generally benefited from widespread and timely rains. The areas hit by flooding, about 6 million hectares, represent 7 percent of cropped area. Flood losses, currently estimated at 1 million to 2 million tons will pare the summer foodgrain crop by less than 3 percent.

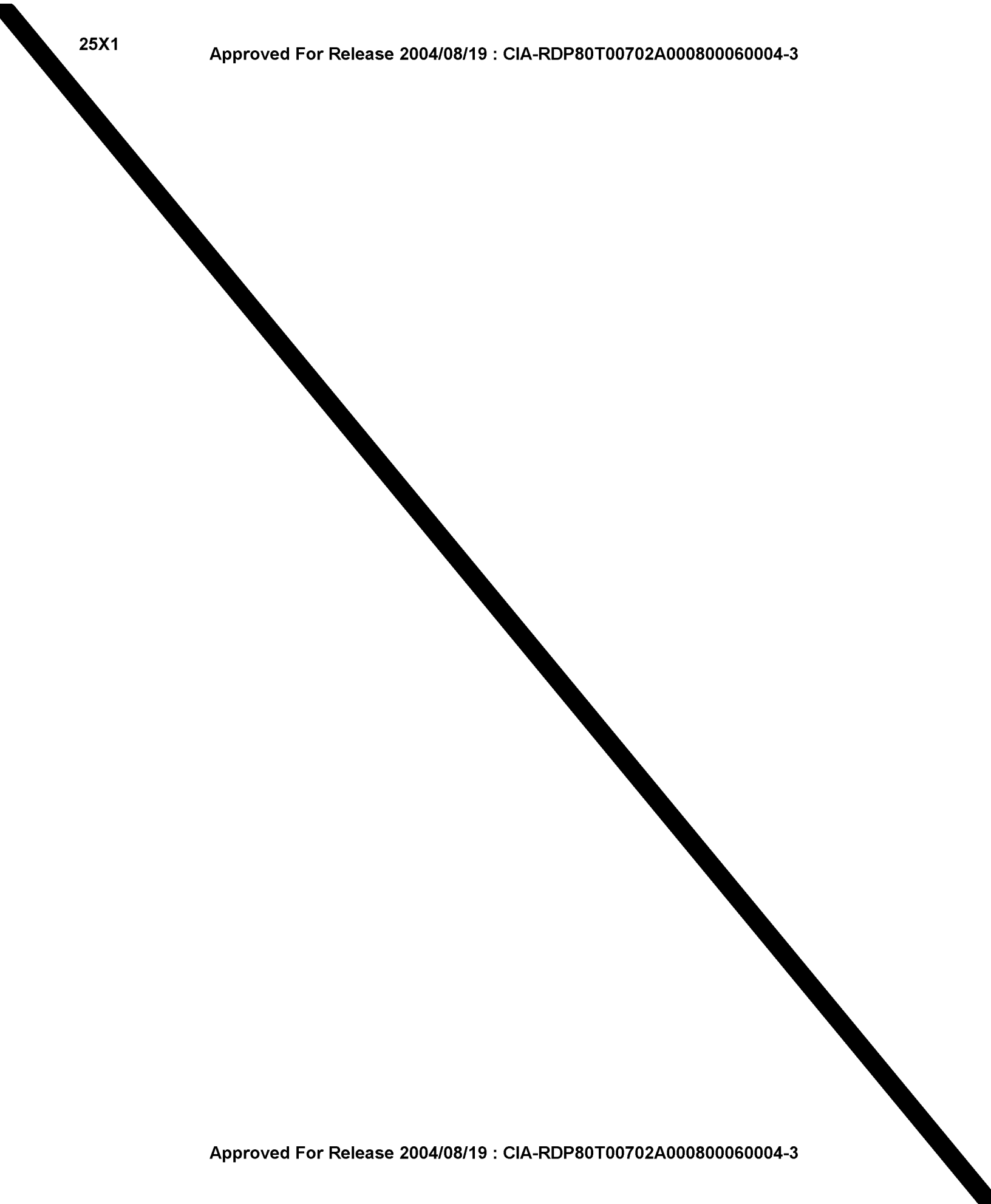
The upcoming winter crop, mainly wheat to be sown through November, will get a boost from ample moisture in the soil. This crop normally provides about 40 percent of India's total foodgrain harvest. Prospects are excellent that the 1978/79 foodgrain crop will match last year's record 125 million tons.

Indian Government officials estimates that 32 million people in 11 states have been affected by the floods. Foodgrain stocks of 18 million tons are more than adequate to aid flood victims.

Three succesive good harvests since 1974/75 have made India a net grain exporter. For 1978/79 we look for exports to total 1.35 million tons: 300,000 tons of wheat as a loan to Vietman; 50,000 tons of wheat as a loan to Afghanistan; and 1 million tons of wheat as final repayment to the USSR for its wheat loan of 1973.

25X1





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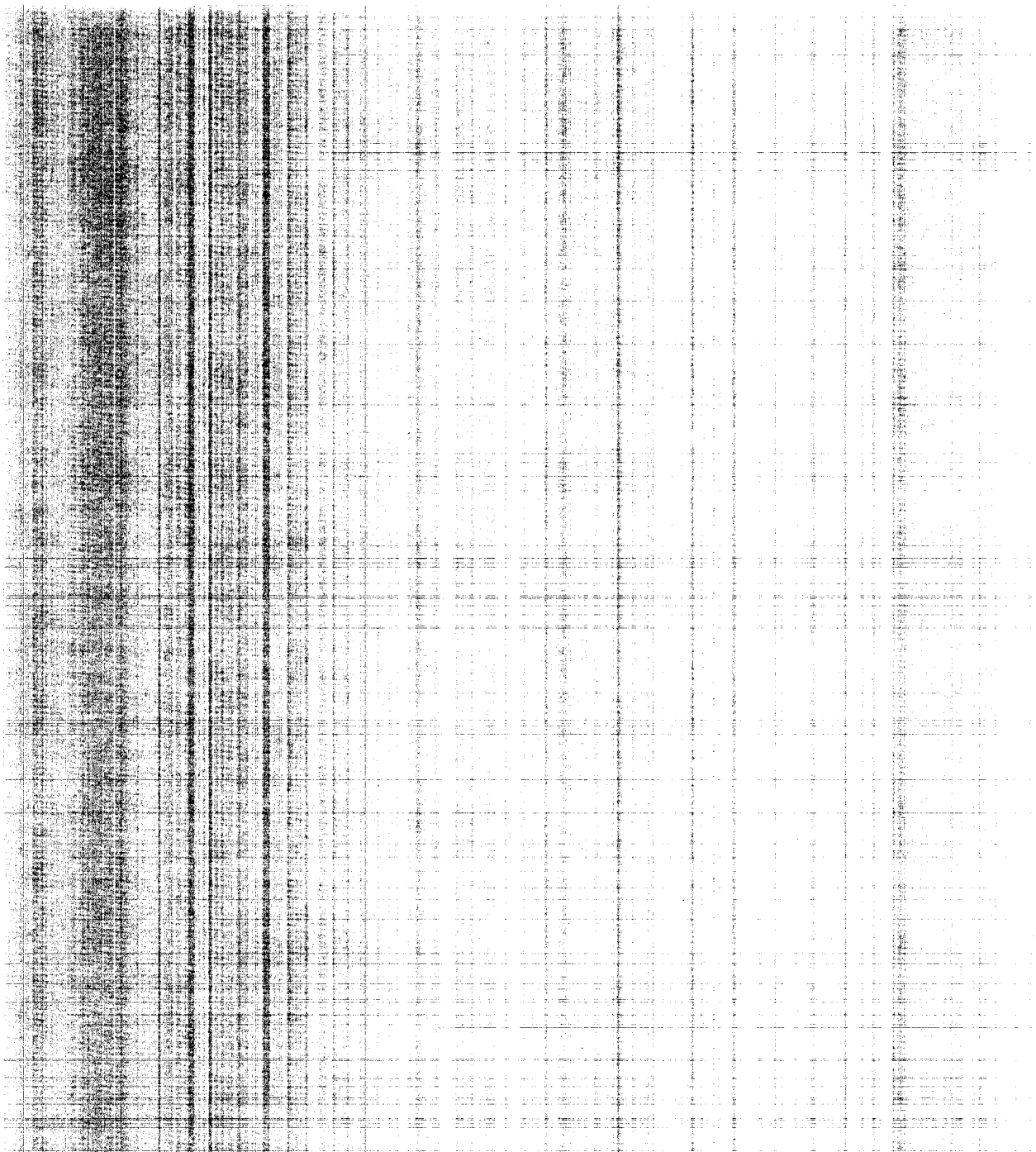


Secret

Approved For Release 2004/08/19 : CIA-RDP80T00702A000800060004-3

National Foreign Assessment Center

# Economic Indicators Weekly Review

21 September 1978

*ER EI 78-038*
*21 September 1978*

Approved For Release 2004/08/19 : CIA-RDP80T00702A000800060004-3

## FOREWORD

1. The **Economic Indicators Weekly Review** provides up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the **Economic Indicators Weekly Review** is updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks—or sometimes months—before receipt of official statistical publications. US data are provided by US government agencies.

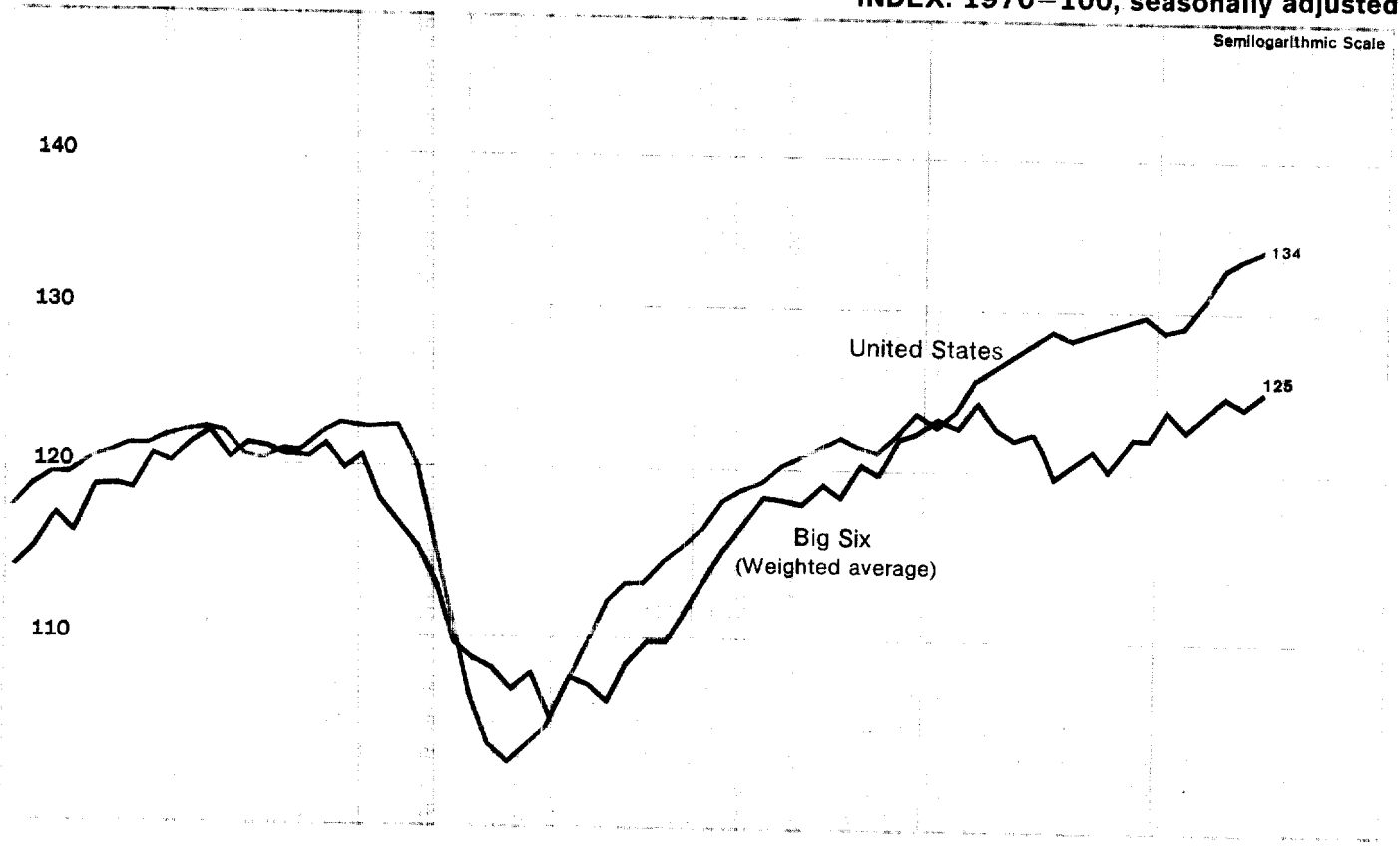
2. Source notes for the **Economic Indicators Weekly Review** are revised every few months. The most recent date of publication of source notes is 16 February 1978. Comments and queries regarding the **Economic Indicators Weekly Review** are welcomed.

Approved For Release 2004/08/19 : CIA-RDP80T00702A000800060004-3

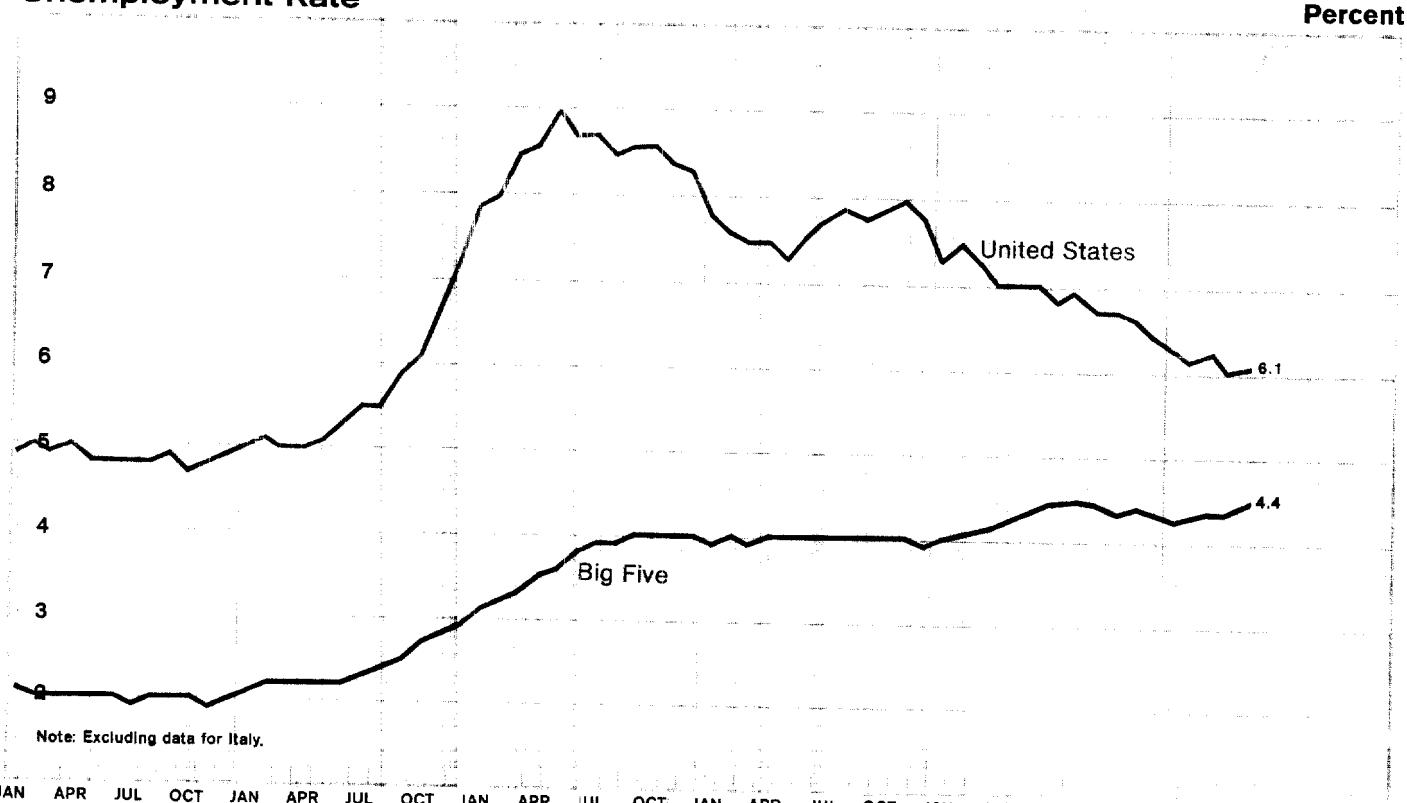
# BIG SIX FOREIGN COUNTRIES[1] COMPOSITE INDICATORS

## Industrial Production

INDEX: 1970=100, seasonally adjusted



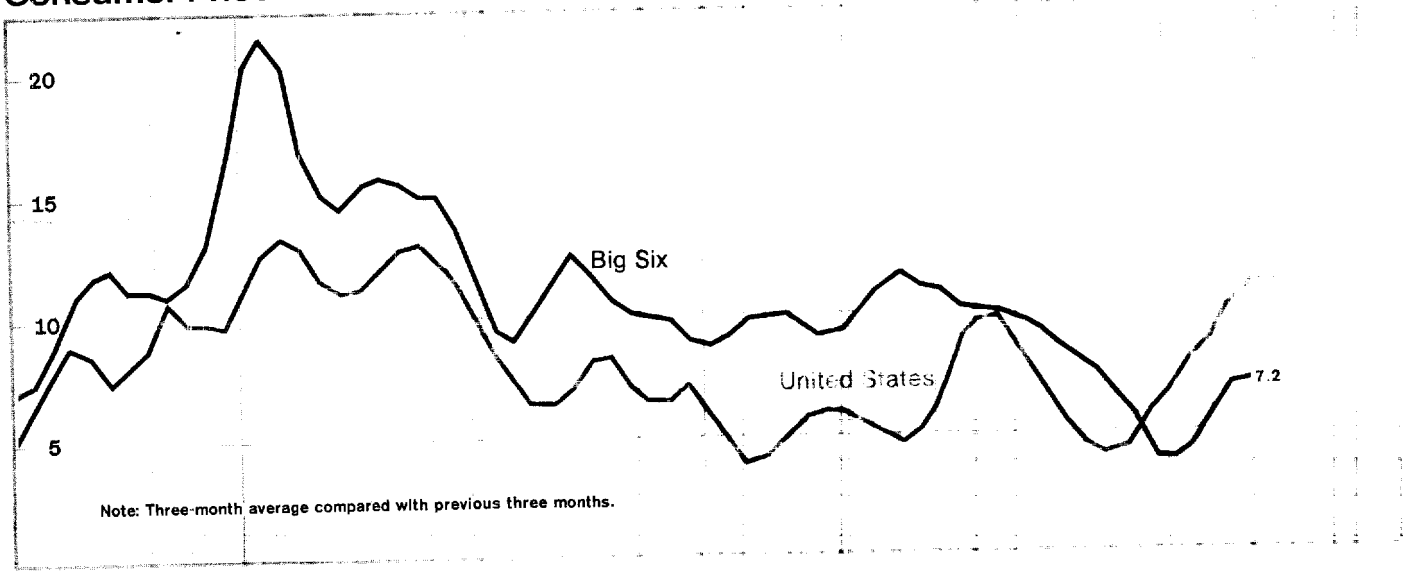

## Unemployment Rate




[1]Including Japan, West Germany, France, the United Kingdom, Italy, and Canada.

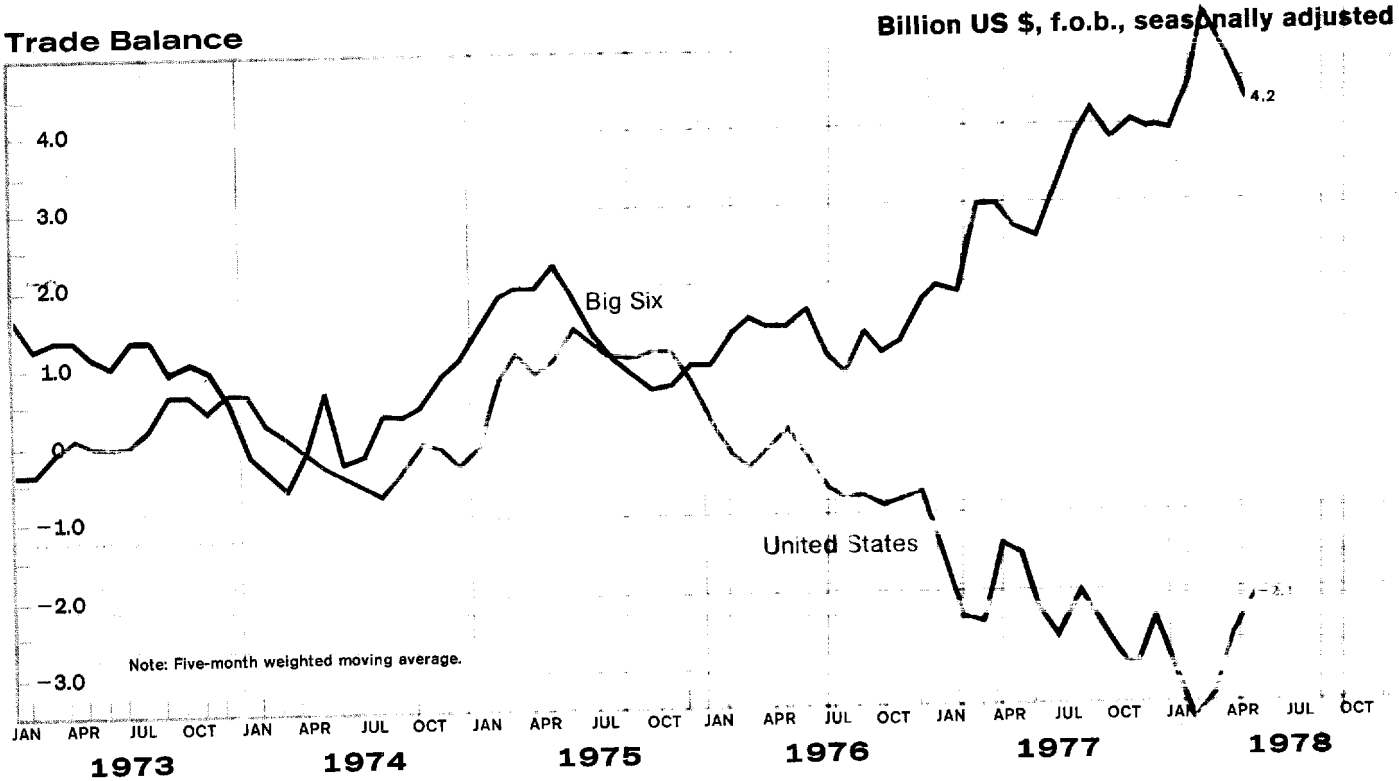
## Consumer Price Inflation

Percent, seasonally adjusted, annual rate




## Trade Balance

Billion US $, f.o.b., seasonally adjusted




| | LATEST MONTH | Percent Change from Previous Month | AVERAGE ANNUAL GROWTH RATE SINCE 1970 | 1 Year Earlier | 3 Months Earlier[2] |
|---|---|---|---|---|---|
| **Industrial Production** | | | | | |
| Big Six | JUN 78 | 0.6 | 2.8 | 2.9 | 3.4 |
| United States | JUN 78 | 0.5 | 3.8 | 4.9 | 12.8 |
| **Consumer Prices** | | | | | |
| Big Six | JUN 78 | 0.6 | 9.2 | 6.2 | 7.2 |
| United States | JUN 78 | 0.9 | 6.7 | 7.4 | 10.7 |

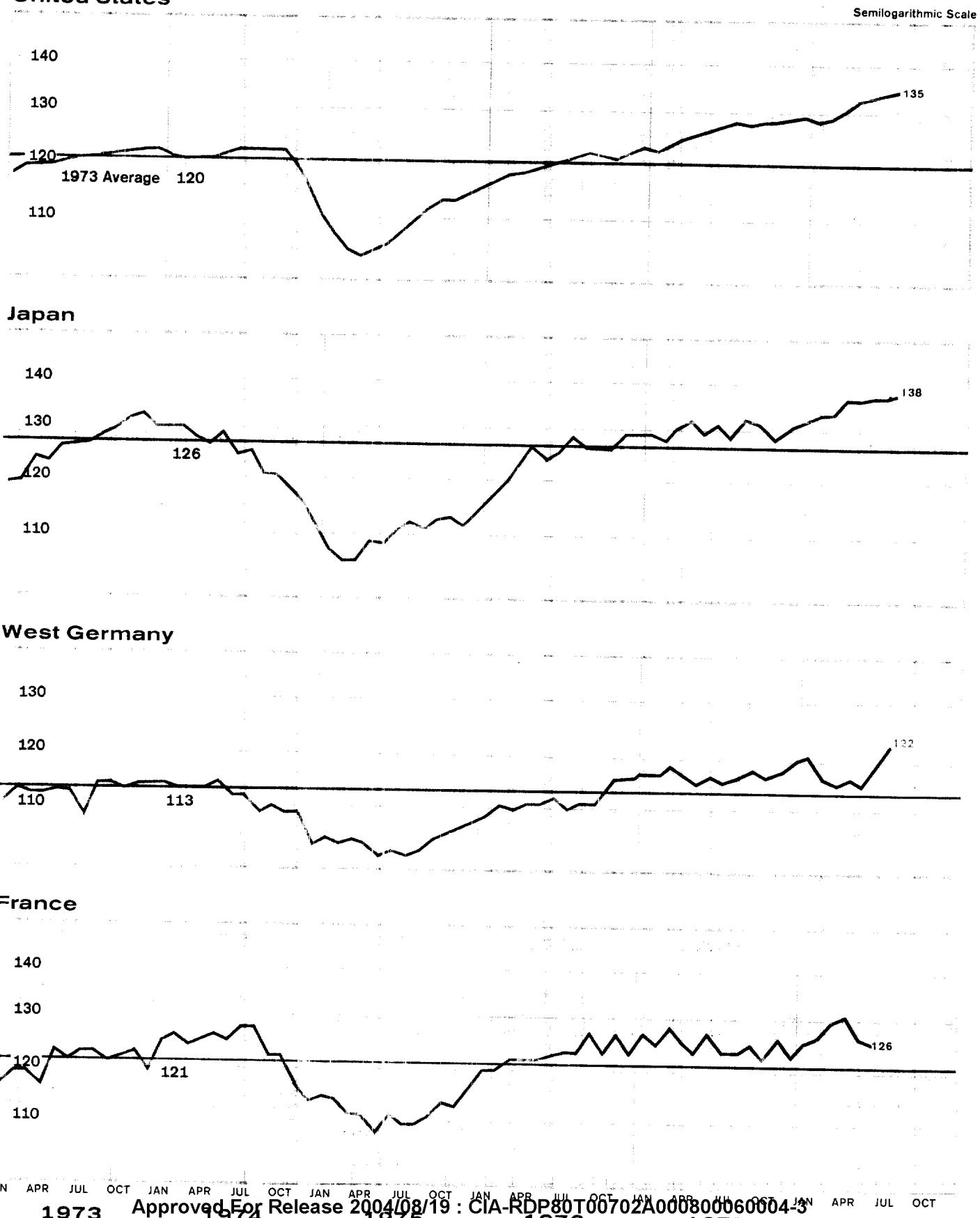
| | LATEST MONTH | | 1 Year Earlier | 3 Months Earlier |
|---|---|---|---|---|
| **Unemployment Rate** | | | | |
| Big Five | MAY 78 | 4.4 | 4.2 | 4.3 |
| United States | MAY 78 | 6.1 | 6.1 | 6.1 |

| | LATEST MONTH | MILLION US $ | CUMULATIVE (MILLION US $) 1978 | 1977 | Change |
|---|---|---|---|---|---|
| **Trade Balance** | | | | | |
| Big Six | MAY 78 | 3,650 | 21,926 | 10,873 | 11,053 |
| United States | MAY 78 | −2,238 | −14,771 | −8,280 | −6,491 |

[2]Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

# INDUSTRIAL PRODUCTION

INDEX: 1970=100, seasonally adjusted

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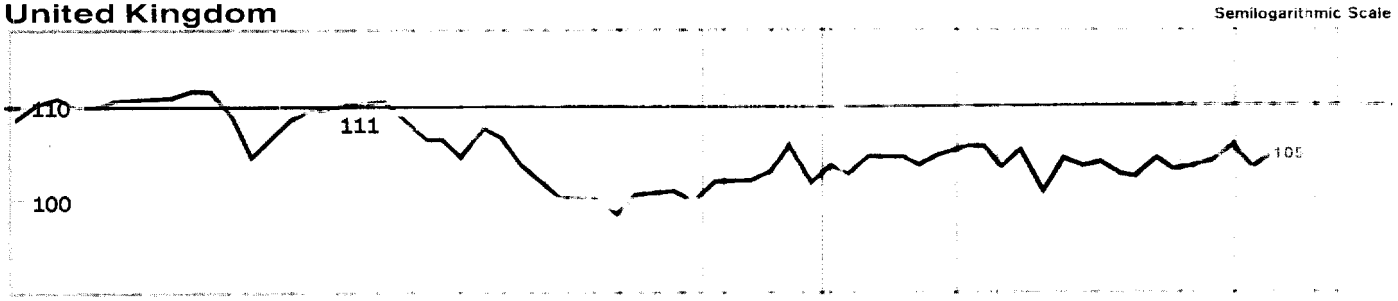
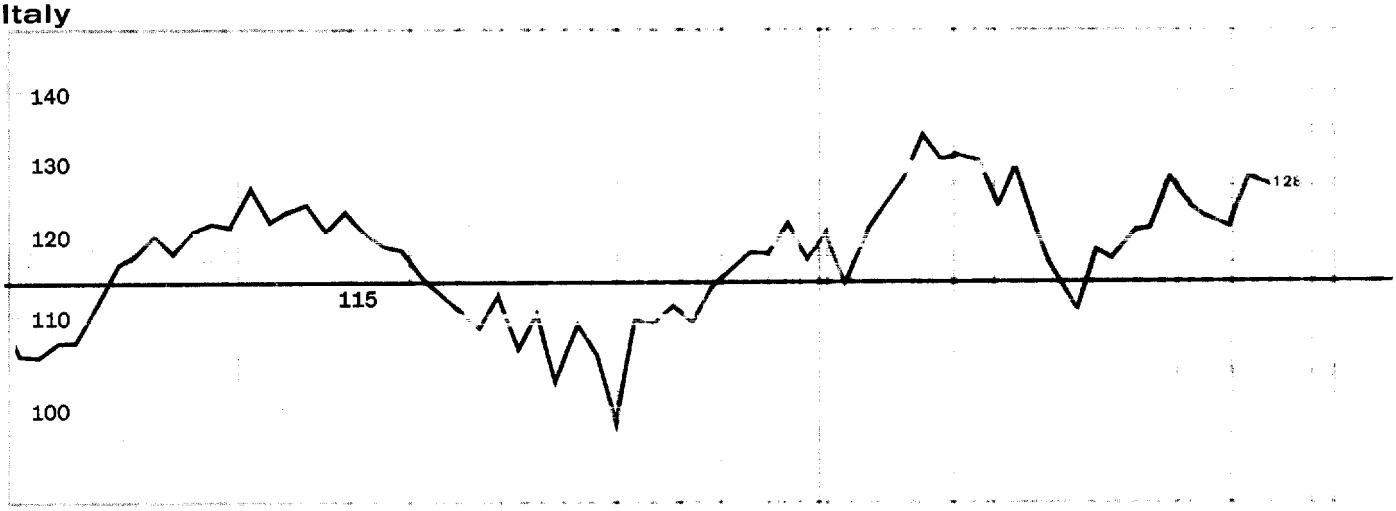
## United Kingdom

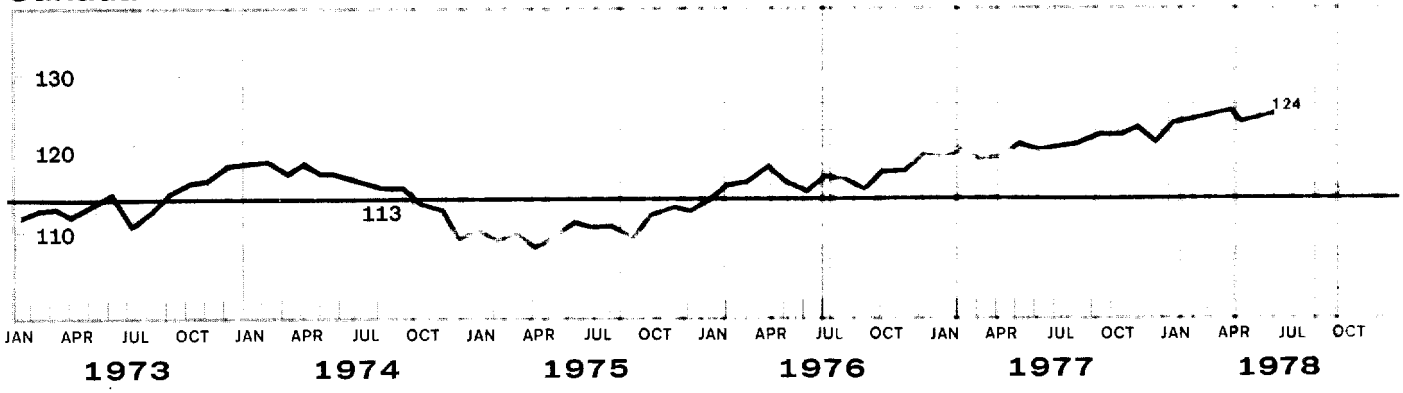
Semilogarithmic Scale




## Italy




## Canada



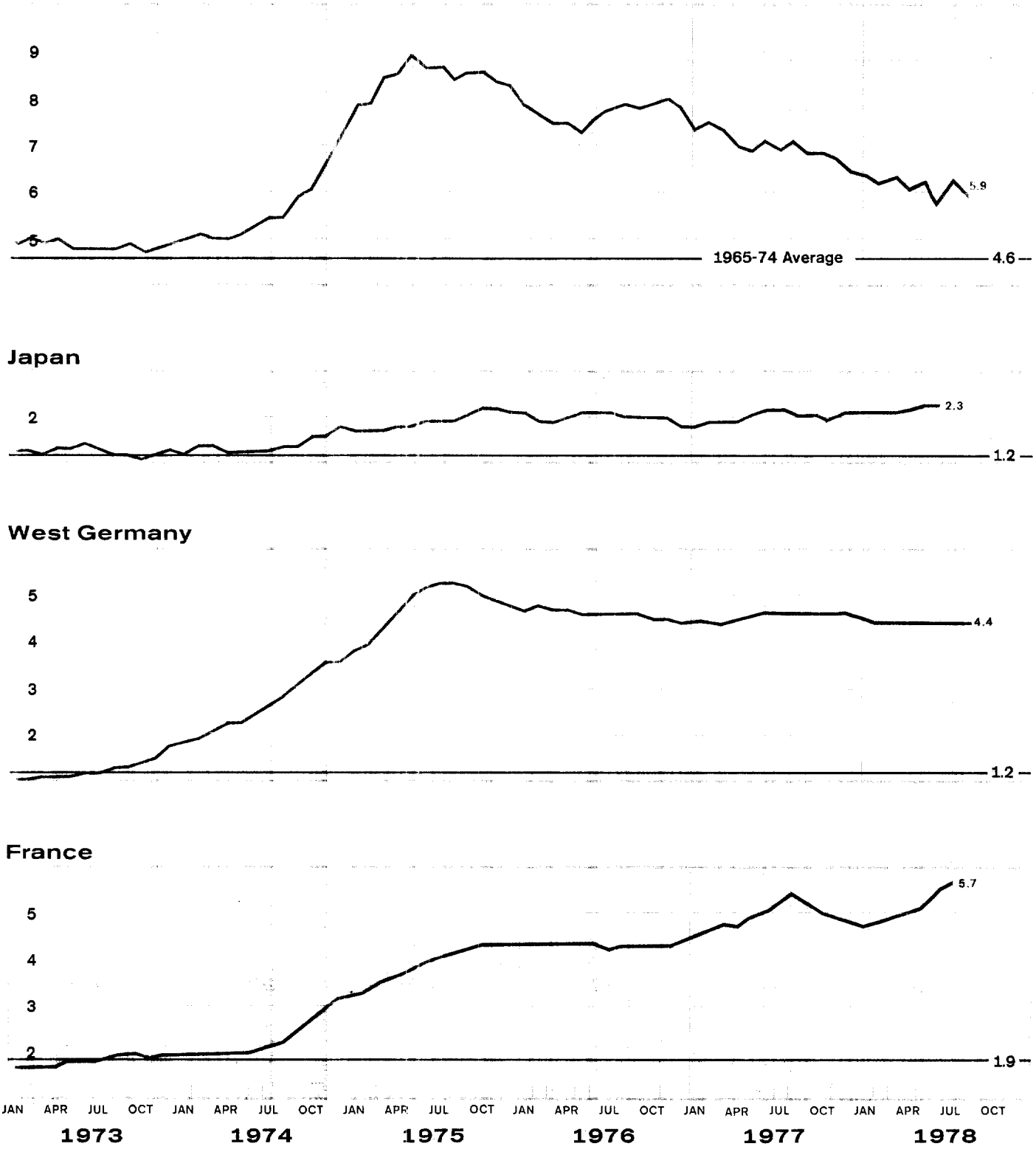

| | LATEST MONTH | Percent Change from Previous Month | AVERAGE ANNUAL GROWTH RATE SINCE 1970 | 1 Year Earlier | 3 Months Earlier[1] |
|---|---|---|---|---|---|
| United States | JUL 78 | 0.5 | 3.8 | 4.8 | 10.3 |
| Japan | JUL 78 | 0.7 | 4.0 | 8.7 | 5.5 |
| West Germany | JUL 78 | 3.4 | 2.5 | 6.1 | 9.5 |
| France | JUN 78 | -0.8 | 2.9 | -1.6 | 5.4 |
| United Kingdom | JUN 78 | 1.4 | 0.6 | 4.2 | 9.6 |
| Italy | JUN 78 | -0.6 | 3.1 | 4.8 | 2.5 |
| Canada | JUN 78 | 0.5 | 2.7 | 3.7 | 1.2 |



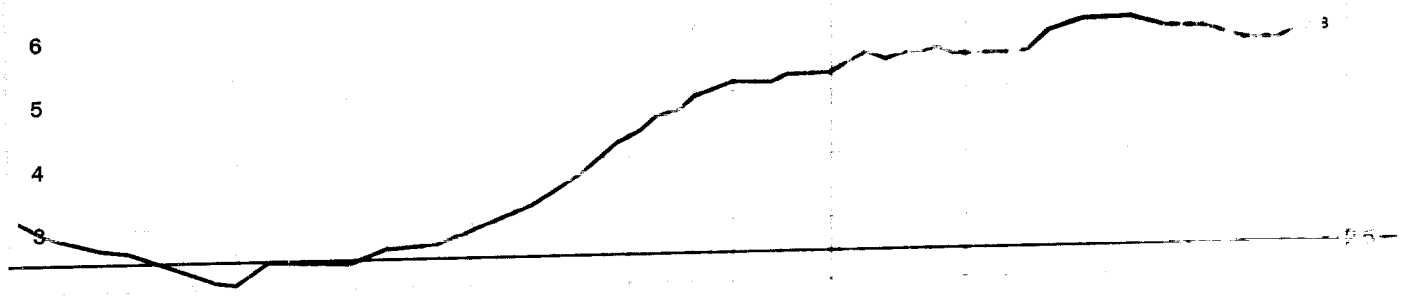
[1]Average for latest 3 months compared with average for previous 3 months.

# UNEMPLOYMENT RATE

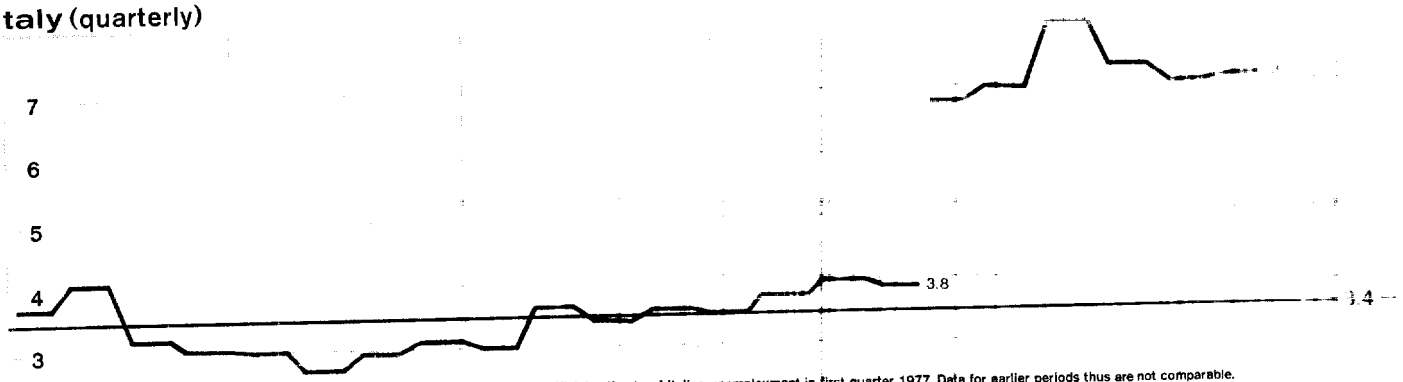
PERCENT



## United Kingdom

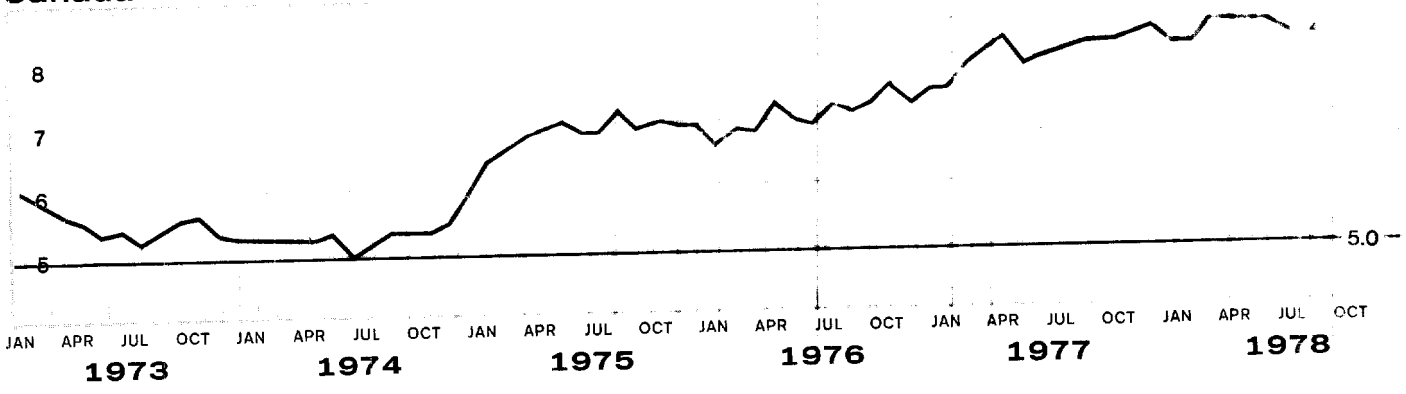



## Italy (quarterly)




A labor force survey based on new definitions of economic activity sharply raised the official estimate of Italian unemployment in first quarter 1977. Data for earlier periods thus are not comparable. Italian data are not seasonally adjusted.

## Canada

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1973 1974 1975 1976 1977 1978

## THOUSANDS OF PERSONS UNEMPLOYED

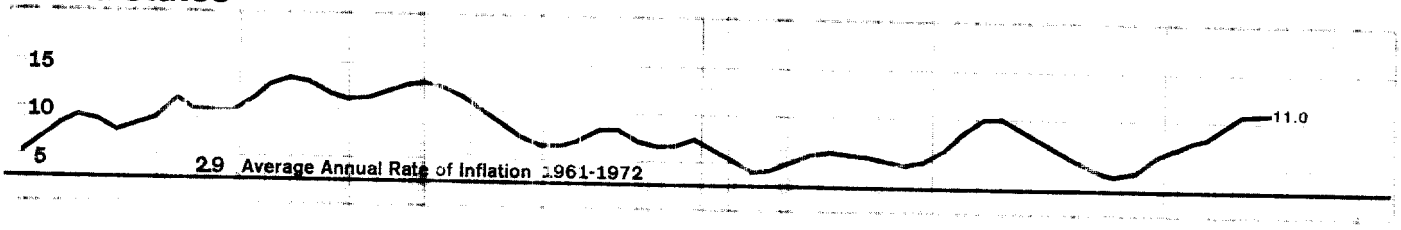
| | LATEST MONTH | | 1 Year Earlier | 3 Months Earlier | | LATEST MONTH | | 1 Year Earlier | 3 Months Earlier |
|---|---|---|---|---|---|---|---|---|---|
| United States | AUG 78 | 5,968 | 6,821 | 6,149 | United Kingdom | AUG 78 | 1,392 | 1,414 | [illegible] |
| Japan | JUN 78 | 1,310 | 1,190 | 1,180 | Italy | II 78 | 1,455 | 1,432 | [illegible] |
| West Germany | AUG 78 | 997 | 1,044 | 997 | Canada | JUL 78 | 927 | 866 | [illegible] |
| France | JUL 78 | 1,241 | 1,140 | 1,087 | | | | | |

NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan and Canada are roughly comparable to US rates. For 1975-78, the rates for France and the United Kingdom should be increased by 5 percent and 15 percent respectively, and those for West Germany decreased by 20 percent to be roughly comparable with US rates. Beginning in 1977, Italian rates should be decreased by 50 percent to be roughly comparable to US rates.

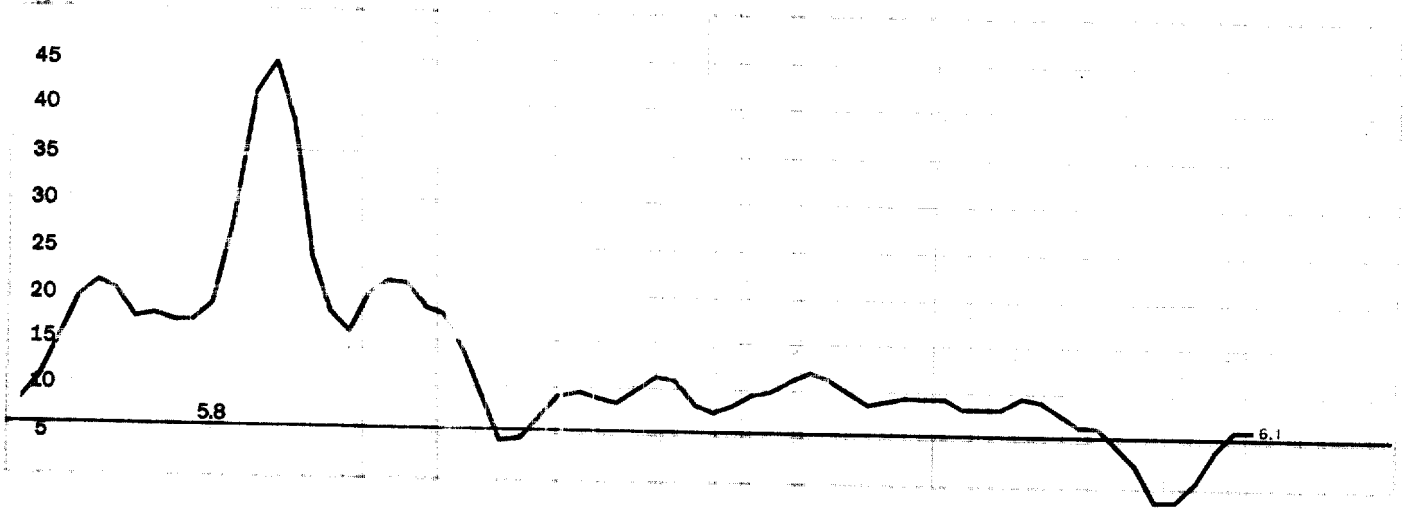
# CONSUMER PRICE INFLATION

Percent, seasonally adjusted, annual rate[1]

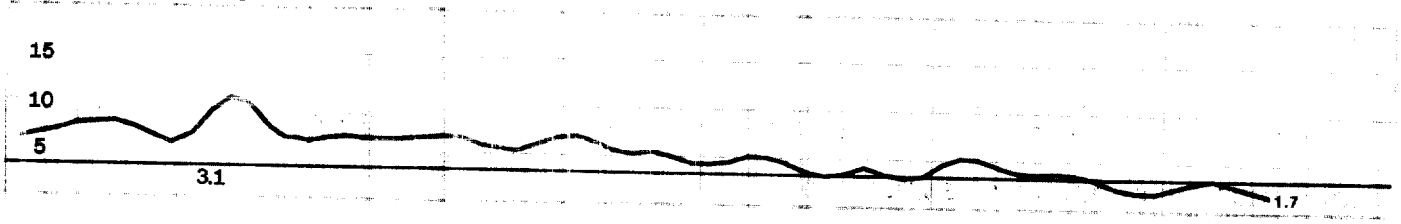
## United States



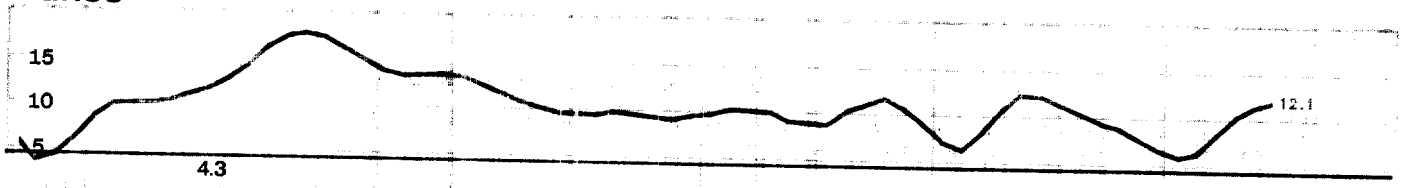

## Japan




## West Germany




## France

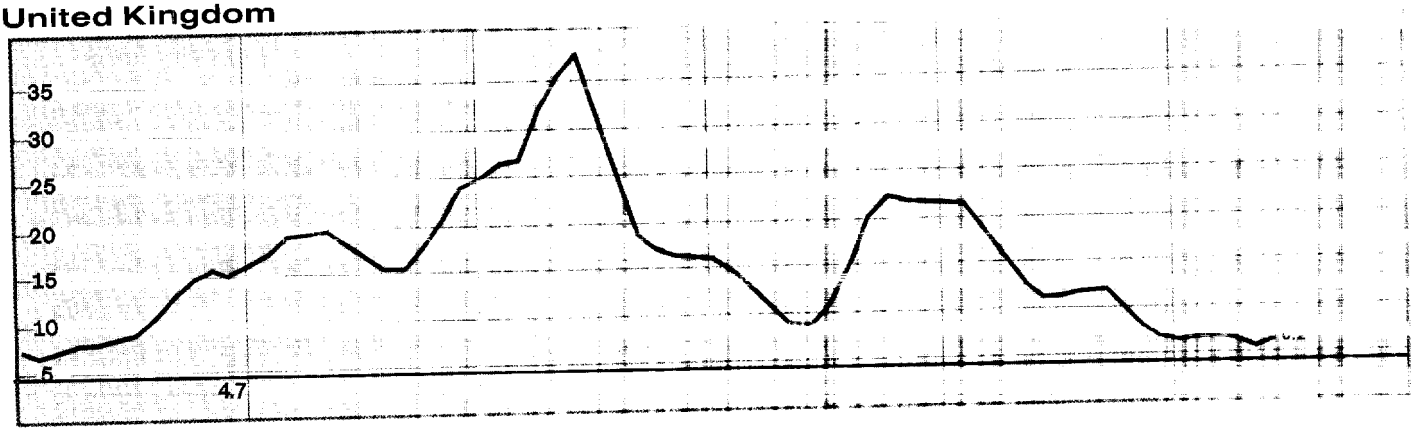



JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT

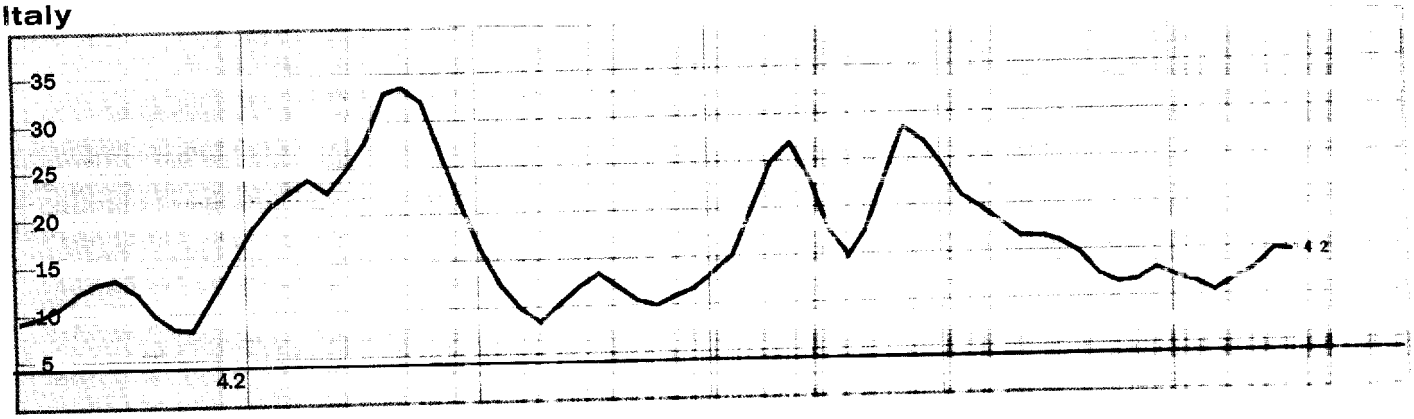
1973 1974 1975 1976 1977 1978

[1]Three-month average compared with previous three months.

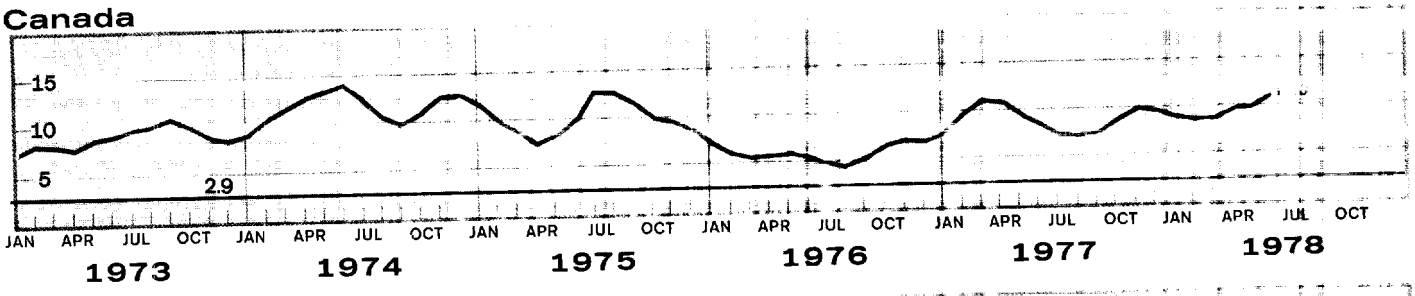
## United Kingdom




## Italy




## Canada




| | LATEST MONTH | Percent Change from Previous Month | AVERAGE ANNUAL GROWTH RATE SINCE 1970 | 1 Year Earlier | 3 Months Earlier[2] |
|---|---|---|---|---|---|
| United States | JUL 78 | 0.7 | 6.8 | 7.7 | 11.0 |
| Japan | JUN 78 | 0.3 | 9.8 | 3.5 | 6.1 |
| West Germany | JUL 78 | 0.1 | 5.2 | 2.3 | 1.7 |
| France | JUL 78 | 1.2 | 9.1 | 9.3 | 12.1 |
| United Kingdom | JUL 78 | 1.1 | 13.1 | 7.6 | 6.2 |
| Italy | AUG 78 | 0.6 | 13.1 | 11.9 | 14.2 |
| Canada | JUL 78 | 1.2 | 7.8 | 9.8 | 11.3 |

[2]Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

## GNP [1]

Constant Market Prices

| | Latest Quarter | Percent Change from Previous Quarter | Average Annual Growth Rate Since: 1970 | 1 Year Earlier | Previous Quarter |
|---|---|---|---|---|---|
| United States | 78 II | 1.8 | 3.2 | 4.0 | 7.4 |
| Japan | 78 I | 2.4 | 5.5 | 5.7 | 10.0 |
| West Germany | 78 I | 0.1 | 2.4 | 1.1 | 0.4 |
| France | 78 I | 1.8 | 4.1 | 1.4 | 7.4 |
| United Kingdom | 77 IV | −0.5 | 1.6 | −1.1 | −1.9 |
| Italy | 78 I | 2.0 | 2.8 | −0.8 | 8.2 |
| Canada | 78 II | 1.2 | 4.7 | 3.7 | 4.7 |

[1] Seasonally adjusted.

## RETAIL SALES [1]

Constant Prices

| | Latest Month | Percent Change from Previous Month | Average Annual Growth Rate Since: 1970 | 1 Year Earlier | 3 Months Earlier [2] |
|---|---|---|---|---|---|
| United States | May 78 | −0.9 | 3.1 | 1.9 | 5.5 |
| Japan | Apr 78 | 4.0 | 9.9 | 4.3 | 24.8 |
| West Germany | Jun 78 | 1.6 | 2.6 | 3.3 | −3.2 |
| France | Jan 78 | 9.9 | 0 | 1.0 | 10.5 |
| United Kingdom | Jul 78 | 2.5 | 1.5 | 6.3 | 10.4 |
| Italy | Mar 78 | 3.6 | 3.2 | 5.5 | 21.1 |
| Canada | Jun 78 | 1.4 | 4.1 | 4.5 | 2.2 |

[1] Seasonally adjusted.

[2] Average for latest 3 months compared with average for previous 3 months.

## FIXED INVESTMENT [1]

Nonresidential; constant prices

| | Latest Quarter | Percent Change from Previous Quarter | Average Annual Growth Rate Since: 1970 | 1 Year Earlier | Previous Quarter |
|---|---|---|---|---|---|
| United States | 78 II | 3.6 | 3.0 | 7.4 | 15.1 |
| Japan | 78 I | 0.9 | 1.1 | −0.4 | 3.6 |
| West Germany | 78 I | −0.5 | 0.7 | 1.6 | −2.1 |
| France | 77 IV | 0.8 | 4.0 | 4.7 | 3.3 |
| United Kingdom | 78 I | 1.3 | 1.6 | 9.7 | 5.2 |
| Italy | 78 I | 2.3 | 1.1 | −19.6 | 9.4 |
| Canada | 78 II | 10.6 | 6.5 | 6.1 | 49.9 |

[1] Seasonally adjusted.

## WAGES IN MANUFACTURING [1]

| | Latest Period | Percent Change from Previous Period | Average Annual Growth Rate Since: 1970 | 1 Year Earlier | 3 Months Earlier [2] |
|---|---|---|---|---|---|
| United States | Jun 78 | 0.5 | 7.6 | 7.6 | 7.2 |
| Japan | Apr 78 | 0.3 | 16.1 | 8.2 | 10.3 |
| West Germany | 78 I | 0.9 | 8.9 | 4.3 | 3.9 |
| France | 77 IV | 3.1 | 14.1 | 12.0 | 12.9 |
| United Kingdom | May 78 | 0.5 | 16.4 | 20.6 | 54.9 |
| Italy | Jun 78 | 0 | 20.1 | 15.5 | 13.8 |
| Canada | May 78 | 0.9 | 10.9 | 7.1 | 5.7 |

[1] Hourly earnings (seasonally adjusted) for the United States, Japan, and Canada; hourly wage rates for others. West German and French data refer to the beginning of the quarter.

[2] Average for latest 3 months compared with that for previous 3 months.

## MONEY MARKET RATES

| | Representative rates | Latest Date | Percent Rate of Interest: Latest Date | 1 Year Earlier | 3 Months Earlier | 1 Month Earlier |
|---|---|---|---|---|---|---|
| United States | Commercial paper | Sep 13 | 8.30 | 6.01 | 7.66 | 7.76 |
| Japan | Call money | Sep 15 | 4.13 | 4.88 | 4.13 | 4.25 |
| West Germany | Interbank loans (3 months) | Sep 13 | 3.63 | 4.07 | 3.62 | 3.59 |
| France | Call money | Sep 15 | 7.38 | 8.50 | 7.38 | 7.38 |
| United Kingdom | Sterling interbank loans (3 months) | Sep 13 | 9.24 | 6.09 | 10.16 | 9.33 |
| Canada | Finance paper | Sep 13 | 8.96 | 7.50 | 8.14 | 8.74 |
| Eurodollars | Three-month deposits | Sep 13 | 8.85 | 6.49 | 8.48 | 8.33 |

## EXPORT PRICES
US $

| | Latest Month | Percent Change from Previous Month | Average Annual Growth Rate Since 1970 | 1 Year Earlier | 3 Months Earlier |
|---|---|---|---|---|---|
| United States | May 78 | 0.4 | 9.4 | 5.0 | 8.3 |
| Japan | Jul 78 | 1.2 | 11.7 | 27.0 | 39.1 |
| West Germany | Jun 78 | 1.7 | 11.5 | 12.9 | −4.0 |
| France | Apr 78 | 3.4 | 12.1 | 17.9 | 36.2 |
| United Kingdom | Jul 78 | 3.7 | 11.8 | 20.4 | 23.8 |
| Italy | Apr 78 | −0.6 | 10.9 | 9.6 | 6.7 |
| Canada | May 78 | 1.8 | 8.4 | 0.3 | 3.8 |

## EXPORT PRICES
National Currency

| | Latest Month | Percent Change from Previous Month | Average Annual Growth Rate Since 1970 | 1 Year Earlier | 3 Months Earlier |
|---|---|---|---|---|---|
| United States | May 78 | 0.4 | 9.4 | 5.0 | 8.3 |
| Japan | Jul 78 | −5.8 | 3.8 | −4.3 | −8.8 |
| West Germany | Jun 78 | 0.7 | 3.9 | −0.1 | 4.9 |
| France | Apr 78 | 0.9 | 9.4 | 8.9 | 21.0 |
| United Kingdom | Jul 78 | 0.5 | 15.1 | 9.4 | 11.3 |
| Italy | Apr 78 | −0.6 | 15.4 | 5.7 | −1.6 |
| Canada | May 78 | −0.2 | 9.3 | 7.0 | 6.0 |

## IMPORT PRICES
National Currency

| | Latest Month | Percent Change from Previous Month | Average Annual Growth Rate Since 1970 | 1 Year Earlier | 3 Months Earlier |
|---|---|---|---|---|---|
| United States | May 78 | −0.3 | 12.8 | 5.4 | 6.8 |
| Japan | Jul 78 | −6.6 | 5.8 | −20.9 | −22.7 |
| West Germany | Jun 78 | −1.6 | 3.0 | −5.9 | −12.5 |
| France | Apr 78 | −2.2 | 9.3 | 0.2 | −1.6 |
| United Kingdom | Jul 78 | −0.1 | 17.4 | 1.8 | 8.2 |
| Italy | Apr 78 | −0.7 | 18.9 | 4.7 | −8.3 |
| Canada | Apr 78 | 1.7 | 8.7 | 13.1 | 1.9 |

## OFFICIAL RESERVES

| | Latest Month | Billion US $ | | 1 Year Earlier | 3 Months Earlier |
|---|---|---|---|---|---|
| | End of | Billion US $ | Jun 1970 | | |
| United States | Jun 78 | 18.9 | 14.5 | 19.2 | 19.2 |
| Japan | Aug 78 | 29.2 | 4.1 | 17.8 | 27.7 |
| West Germany | Jul 78 | 41.1 | 8.8 | 35.1 | 41.3 |
| France | Apr 78 | 10.6 | 4.4 | 10.0 | 10.2 |
| United Kingdom | May 78 | 17.3 | 2.8 | 10.0 | 21.4 |
| Italy | Jun 78 | 13.2 | 4.7 | 9.7 | 10.6 |
| Canada | Jul 78 | 4.6 | 9.1 | 5.0 | 4.6 |

## CURRENT ACCOUNT BALANCE [1]

| | Latest Period | Cumulative (Million US $) Million US $ | 1978 | 1977 | Change |
|---|---|---|---|---|---|
| United States [2] | 78 I | −6,954 | −6,954 | −4,158 | −2,796 |
| Japan | Jul 78 | 2,050 | 10,879 | 4,630 | 6,249 |
| West Germany | Jul 78 | −868 | 2,831 | 1,406 | 1,425 |
| France | 78 I | −84 | −84 | −1,628 | 1,543 |
| United Kingdom | 78 I | −803 | −803 | −896 | 94 |
| Italy | 77 III | 2,390 | N.A. | N.A. | N.A. |
| Canada | 78 I | −1,273 | −1,273 | −1,484 | 212 |

[1] Converted to US dollars at the current market rates of exchange.
[2] Seasonally adjusted.

## BASIC BALANCE [1]
Current Account and Long-Term Capital Transactions

| | Latest Period | Cumulative (Million US $) Million US $ | 1978 | 1977 | Change |
|---|---|---|---|---|---|
| United States | No longer published [2] | | | | |
| Japan | Jul 78 | 650 | 6,231 | 3,513 | 2,718 |
| West Germany | Jul 78 | −881 | 1,915 | −2,363 | 4,278 |
| France | 78 I | −863 | −863 | −1,889 | 1,025 |
| United Kingdom | 78 I | −326 | −326 | 543 | −869 |
| Italy | 77 III | 2,520 | N.A. | N.A. | N.A. |
| Canada | 78 I | −668 | −668 | −584 | −84 |

[1] Converted to US dollars at the current market rates of exchange.
[2] As recommended by the Advisory Committee on the Presentation of Balance of Payments Statistics, the Department of Commerce no longer publishes a basic balance.

## EXCHANGE RATES
Spot Rate
As of 8 Sep 78

| | US $ Per Unit | Percent Change from 19 Mar 73 | 1 Year Earlier | 3 Months Earlier | 8 Sep 78 |
|---|---|---|---|---|---|
| Japan (yen) | 0.0053 | 40.72 | 40.19 | 10.08 | 0.32 |
| West Germany (Deutsche mark) | 0.5061 | 17.31 | 17.64 | 5.16 | 1.09 |
| France (franc) | 0.2286 | 12.17 | 12.53 | 4.31 | −0.14 |
| United Kingdom (pound sterling) | 1.9608 | 12.58 | 12.53 | 6.19 | 1.28 |
| Italy (lira) | 0.0012 | 6.00 | 6.18 | 3.00 | 0.75 |
| Canada (dollar) | 0.8597 | −7.68 | −7.71 | −3.33 | −0.38 |

## TRADE-WEIGHTED EXCHANGE RATES [1]
As of 8 Sep 78

| | Percent Change from 19 Mar 73 | 1 Year Earlier | 3 Months Earlier | 8 Sep 78 |
|---|---|---|---|---|
| United States | −12.84 | −8.85 | −2.68 | −0.28 |
| Japan | 34.34 | 35.92 | 8.94 | 0.10 |
| West Germany | −0.20 | 4.42 | 0.79 | 0.48 |
| France | −8.46 | −1.35 | −0.45 | −1.01 |
| United Kingdom | −3.26 | 1.50 | 2.56 | 0.74 |
| Italy | −10.56 | −6.64 | −1.45 | 0.13 |
| Canada | −11.89 | −11.20 | −4.60 | −0.54 |

[1] Weighting is based on each listed country's trade with 16 other industrialized countries to [illegible] the major currencies

Developed Countries: Direction of Trade [1]

Billion US $

| | Exports to (f.o.b.) | | | | | |
|---|---|---|---|---|---|---|
| | World | Big Seven | Other OECD | OPEC | Communist | Other |
| UNITED STATES | | | | | | |
| 1975 | 107.65 | 46.94 | 16.25 | 10.77 | 3.37 | 29.82 |
| 1976 | 115.01 | 51.30 | 17.68 | 12.57 | 3.64 | 29.44 |
| 1977 | 120.17 | 53.92 | 18.53 | 14.02 | 2.72 | 30.98 |
| 1978 | | | | | | |
| 1st Qtr | 30.94 | 13.65 | 4.60 | 3.76 | 1.00 | 7.93 |
| Apr | 12.06 | 5.40 | 1.68 | 1.38 | 0.42 | 3.17 |
| JAPAN | | | | | | |
| 1975 | 55.73 | 16.56 | 6.07 | 8.42 | 5.16 | 15.87 |
| 1976 | 67.32 | 22.61 | 8.59 | 9.27 | 4.93 | 17.84 |
| 1977 | 81.11 | 28.02 | 9.73 | 12.03 | 5.32 | 26.01 |
| 1978 | | | | | | |
| 1st Qtr | 22.11 | 7.83 | 2.39 | 3.35 | 1.32 | 7.22 |
| Apr | 7.89 | 2.80 | 0.80 | 1.19 | 0.57 | 2.53 |
| WEST GERMANY | | | | | | |
| 1975 | 91.70 | 28.33 | 36.44 | 6.78 | 8.81 | 11.05 |
| 1976 | 103.63 | 33.44 | 41.86 | 8.25 | 8.72 | 11.04 |
| 1977 | 119.28 | 39.01 | 48.00 | 10.78 | 8.59 | 12.90 |
| 1978 | | | | | | |
| 1st Qtr | 32.45 | 11.17 | 13.05 | 2.76 | 1.97 | 3.50 |
| FRANCE | | | | | | |
| 1975 | 52.87 | 20.00 | 15.50 | 4.90 | 3.13 | 8.61 |
| 1976 | 57.05 | 22.49 | 16.15 | 5.08 | 3.23 | 8.75 |
| 1977 | 65.00 | 25.90 | 18.19 | 5.97 | 3.00 | 11.94 |
| 1978 | | | | | | |
| 1st Qtr | 18.49 | 7.66 | 5.07 | 1.57 | 0.66 | 3.53 |
| Apr | 6.74 | 2.82 | 1.90 | 0.56 | 0.28 | 1.18 |
| UNITED KINGDOM | | | | | | |
| 1975 | 44.03 | 12.55 | 16.59 | 4.55 | 1.56 | 8.64 |
| 1976 | 46.12 | 14.03 | 17.53 | 5.13 | 1.39 | 7.92 |
| 1977 | 57.44 | 16.99 | 22.56 | 6.78 | 1.63 | 9.48 |
| 1978 | | | | | | |
| 1st Qtr | 16.86 | 5.09 | 6.27 | 2.03 | 0.55 | 2.92 |
| Apr | 5.75 | 1.73 | 2.19 | 0.74 | 0.18 | 0.91 |
| ITALY | | | | | | |
| 1975 | 34.82 | 15.61 | 7.86 | 3.72 | 2.46 | 4.67 |
| 1976 | 36.96 | 17.41 | 8.69 | 4.23 | 2.18 | 3.96 |
| 1977 | 45.04 | 20.92 | 10.20 | 5.85 | 2.45 | 5.62 |
| 1978 | | | | | | |
| 1st Qtr | 10.80 | 5.25 | 2.37 | 1.37 | 0.48 | 1.33 |
| CANADA | | | | | | |
| 1975 | 33.84 | 26.30 | 1.73 | 0.71 | 1.20 | 2.00 |
| 1976 | 40.18 | 32.01 | 2.03 | 0.81 | 1.25 | 2.09 |
| 1977 | 42.98 | 34.77 | 2.13 | 0.94 | 1.06 | 4.08 |
| 1978 | | | | | | |
| 1st Qtr | 10.75 | 8.78 | 0.55 | 0.23 | 0.22 | 0.97 |
| Apr | 4.20 | 3.44 | 0.16 | 0.08 | 0.07 | 0.45 |

[1] Source: International Monetary Fund, Direction of Trade.

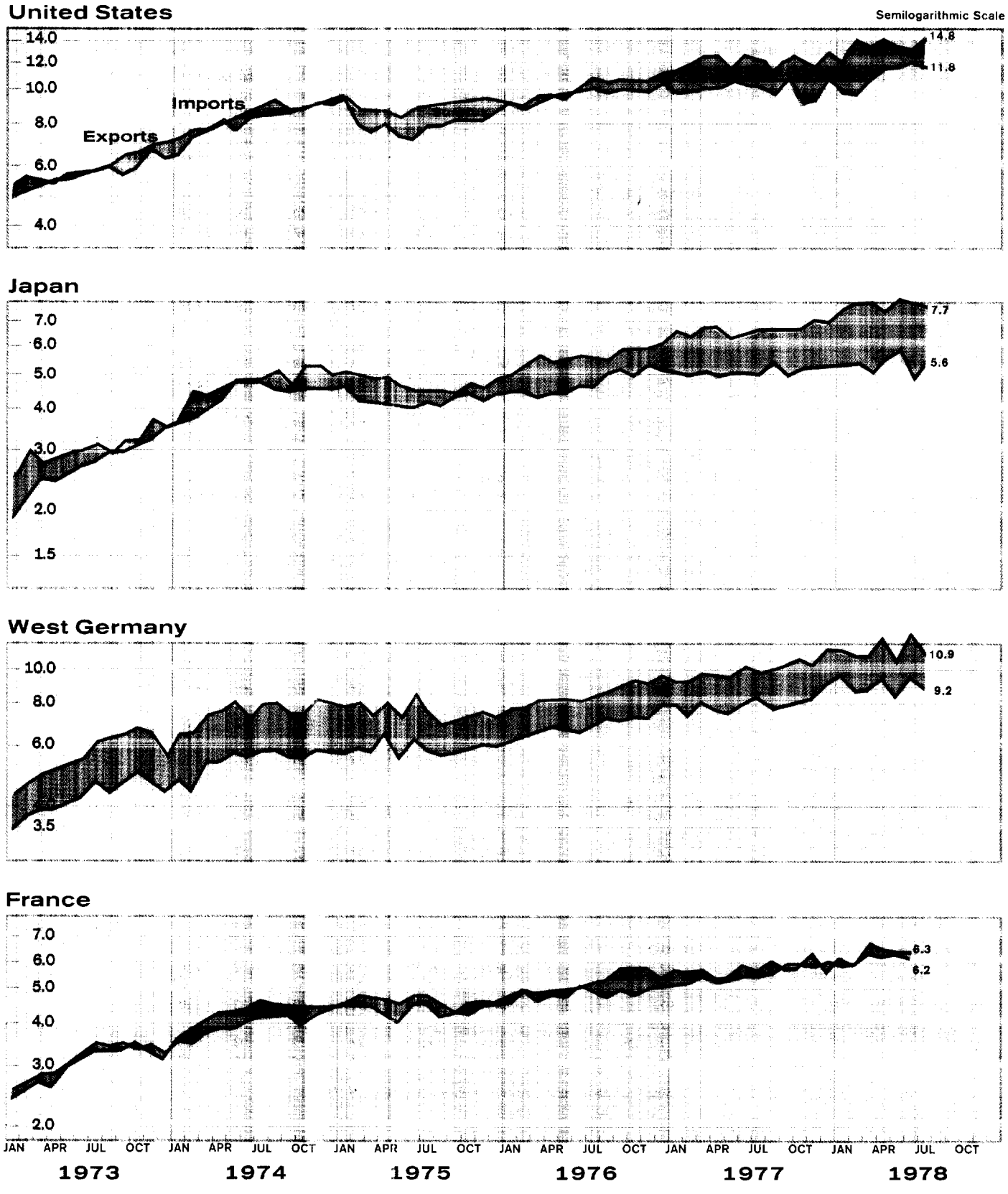
Developed Countries: Direction of Trade[1]

Billion US $

| | Imports from (c.i.f.) | | | | | |
|---|---|---|---|---|---|---|
| | World | Big Seven | Other OECD | OPEC | Communist | Other |
| UNITED STATES | | | | | | |
| 1975 | 103.42 | 49.81 | 8.83 | 18.70 | 0.98 | 25.08 |
| 1976 | 129.57 | 60.39 | 9.75 | 27.17 | 1.16 | 31.09 |
| 1977 | 156.70 | 70.48 | 11.08 | 35.45 | 1.22 | 38.47 |
| 1978 | | | | | | |
| 1st Qtr | 43.14 | 20.39 | 3.51 | 8.15 | 0.47 | 10.62 |
| Apr | 15.42 | 7.54 | 1.27 | 2.73 | 0.18 | 3.70 |
| JAPAN | | | | | | |
| 1975 | 57.85 | 16.93 | 6.08 | 19.40 | 3.36 | 12.05 |
| 1976 | 64.89 | 17.58 | 7.78 | 21.88 | 2.91 | 14.72 |
| 1977 | 71.33 | 18.87 | 7.93 | 24.33 | 3.41 | 16.79 |
| 1978 | | | | | | |
| 1st Qtr | 18.32 | 5.04 | 2.06 | 6.46 | 0.87 | 3.89 |
| Apr | 6.28 | 1.64 | 0.74 | 2.01 | 0.36 | 1.53 |
| WEST GERMANY | | | | | | |
| 1975 | 76.28 | 27.09 | 27.78 | 8.24 | 4.87 | 8.21 |
| 1976 | 89.68 | 31.28 | 32.64 | 9.73 | 5.93 | 10.01 |
| 1977 | 102.63 | 36.38 | 37.37 | 10.12 | 6.14 | 12.62 |
| 1978 | | | | | | |
| 1st Qtr | 28.24 | 10.11 | 10.88 | 2.32 | 1.39 | 3.54 |
| FRANCE | | | | | | |
| 1975 | 53.99 | 23.04 | 14.33 | 9.43 | 1.94 | 5.21 |
| 1976 | 64.38 | 27.81 | 16.93 | 11.36 | 2.24 | 6.01 |
| 1977 | 70.50 | 30.28 | 18.24 | 11.82 | 2.46 | 7.70 |
| 1978 | | | | | | |
| 1st Qtr | 19.76 | 8.58 | 5.40 | 3.05 | 0.64 | 2.09 |
| Apr | 6.79 | 3.02 | 1.84 | 1.00 | 0.23 | 0.70 |
| UNITED KINGDOM | | | | | | |
| 1975 | 53.35 | 18.47 | 18.52 | 6.91 | 1.68 | 7.67 |
| 1976 | 55.56 | 19.66 | 18.81 | 7.29 | 2.08 | 7.65 |
| 1977 | 63.29 | 24.02 | 21.34 | 6.31 | 2.40 | 9.22 |
| 1978 | | | | | | |
| 1st Qtr | 18.87 | 7.44 | 6.68 | 1.80 | 0.55 | 2.40 |
| Apr | 5.67 | 2.27 | 2.04 | 0.39 | 0.16 | 0.81 |
| ITALY | | | | | | |
| 1975 | 38.36 | 17.32 | 6.75 | 7.85 | 2.09 | 4.34 |
| 1976 | 43.42 | 19.35 | 8.04 | 8.12 | 2.65 | 5.24 |
| 1977 | 47.56 | 20.80 | 8.67 | 9.03 | 2.80 | 6.26 |
| 1978 | | | | | | |
| 1st Qtr | 11.26 | 5.03 | 2.10 | 2.18 | 0.51 | 1.44 |
| CANADA | | | | | | |
| 1975 | 38.59 | 29.78 | 1.70 | 3.43 | 0.32 | 2.02 |
| 1976 | 43.05 | 33.55 | 1.82 | 3.48 | 0.38 | 2.56 |
| 1977 | 44.67 | 35.67 | 1.77 | 3.05 | 0.33 | 3.85 |
| 1978 | | | | | | |
| 1st Qtr | 10.80 | 8.60 | 0.44 | 0.77 | 0.08 | 0.91 |
| Apr | 4.61 | 3.84 | 0.18 | 0.03 | 0.19 | 0.37 |

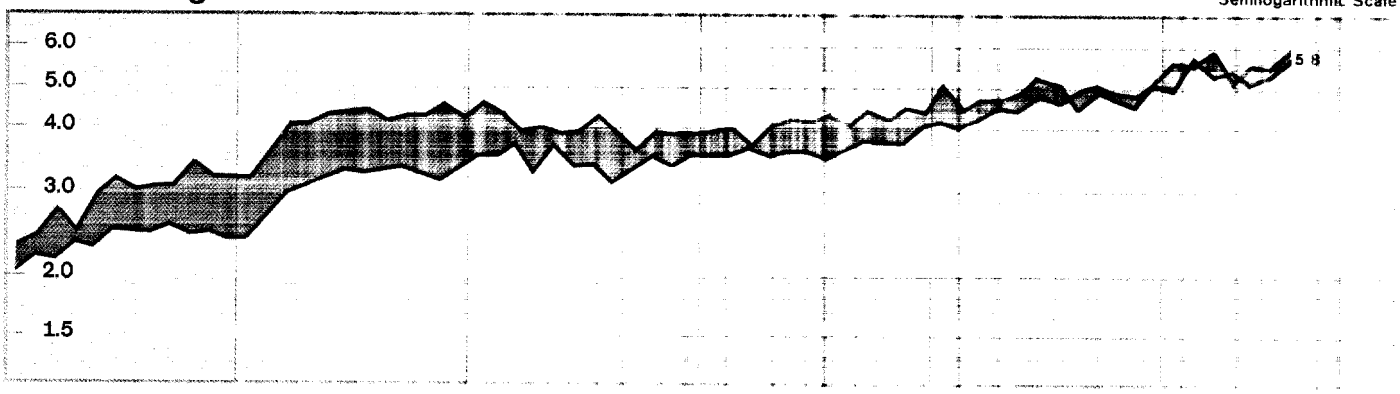
[1] Source: International Monetary Fund, Direction of Trade.

# FOREIGN TRADE BILLION US $, f.o.b., seasonally adjusted

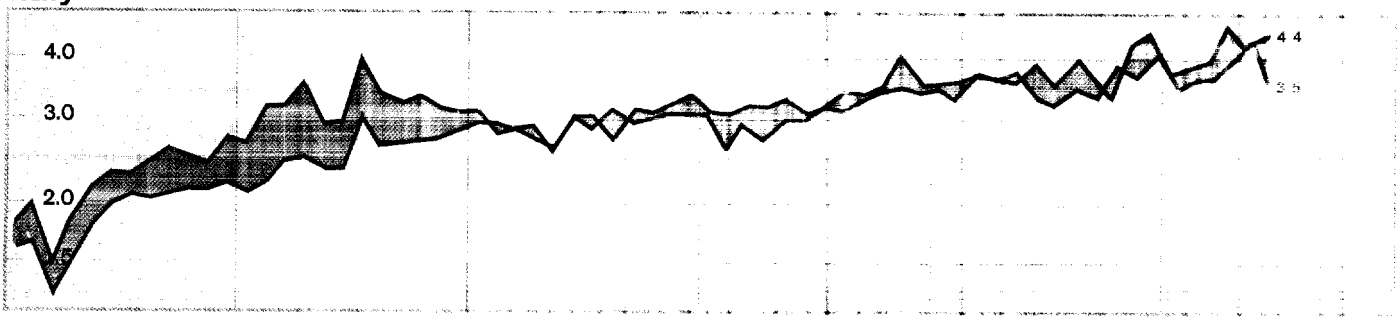


## United Kingdom

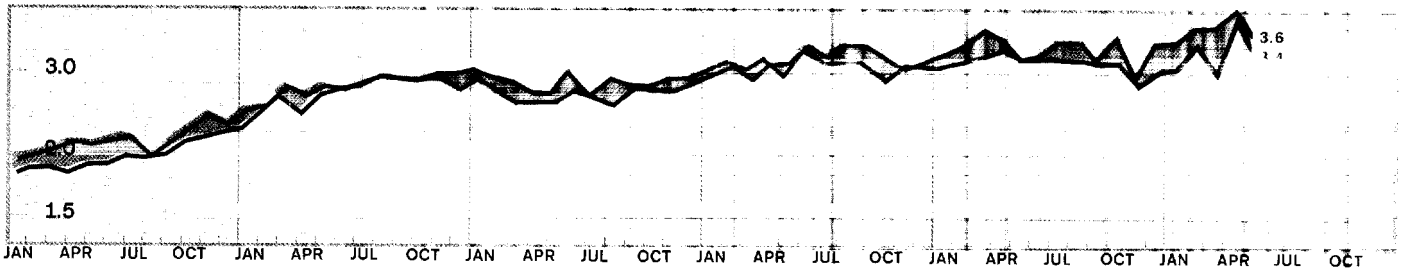
Semilogarithmic Scale




## Italy




## Canada




| | LATEST MONTH | MILLION US $ | CUMULATIVE (MILLION US $) 1978 | 1977 | CHANGE |
|---|---|---|---|---|---|
| United States | JUL 78 | 11,793 | 78,156 | 70,642 | 10.6% |
| | | 14,779 | 97,511 | 84,265 | 15.7% |
| | Balance | −2,987 | −19,355 | −13,623 | −5,732 |
| Japan | JUL 78 | 7,700 | 54,344 | 45,157 | 20.3% |
| | | 5,556 | 37,967 | 35,555 | 6.8% |
| | Balance | 2,144 | 16,377 | 9,602 | 6,775 |
| West Germany | JUL 78 | 10,890 | 78,259 | 66,376 | 17.9% |
| | | 9,203 | 64,604 | 55,039 | 17.4% |
| | Balance | 1,687 | 13,655 | 11,337 | 2,318 |
| France | JUN 78 | 6,316 | 37,327 | 31,159 | 19.8% |
| | | 6,215 | 37,180 | 32,828 | 13.3% |
| | Balance | 100 | 147 | −1,670 | 1,817 |

| | LATEST MONTH | MILLION US $ | CUMULATIVE (MILLION US $) 1978 | 1977 | CHANGE |
|---|---|---|---|---|---|
| United Kingdom | JUL 78 | 5,770 | 38,169 | 31,289 | 22.0% |
| | | 6,055 | 39,807 | 34,595 | 15.1% |
| | Balance | −284 | −1,639 | −3,306 | 1,668 |
| Italy | JUN 78 | 4,412 | 24,750 | 21,545 | 14.9% |
| | | 3,517 | 22,832 | 22,136 | 3.1% |
| | Balance | 895 | 1,918 | −591 | 2,508 |
| Canada | MAY 78 | 3,621 | 18,983 | 17,435 | 8.9% |
| | | 3,401 | 17,447 | 16,713 | 4.4% |
| | Balance | 219 | 1,536 | 722 | 814 |

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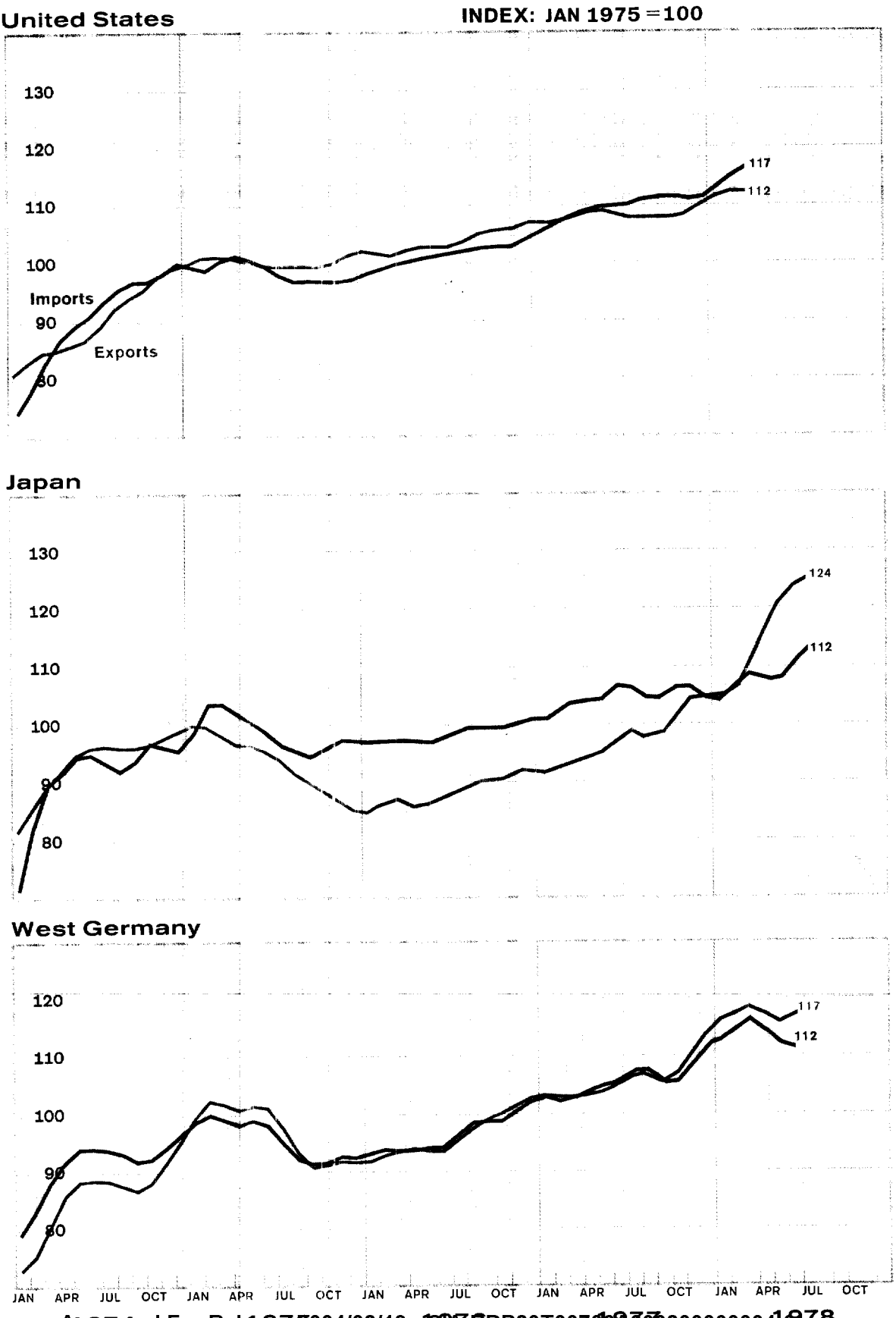
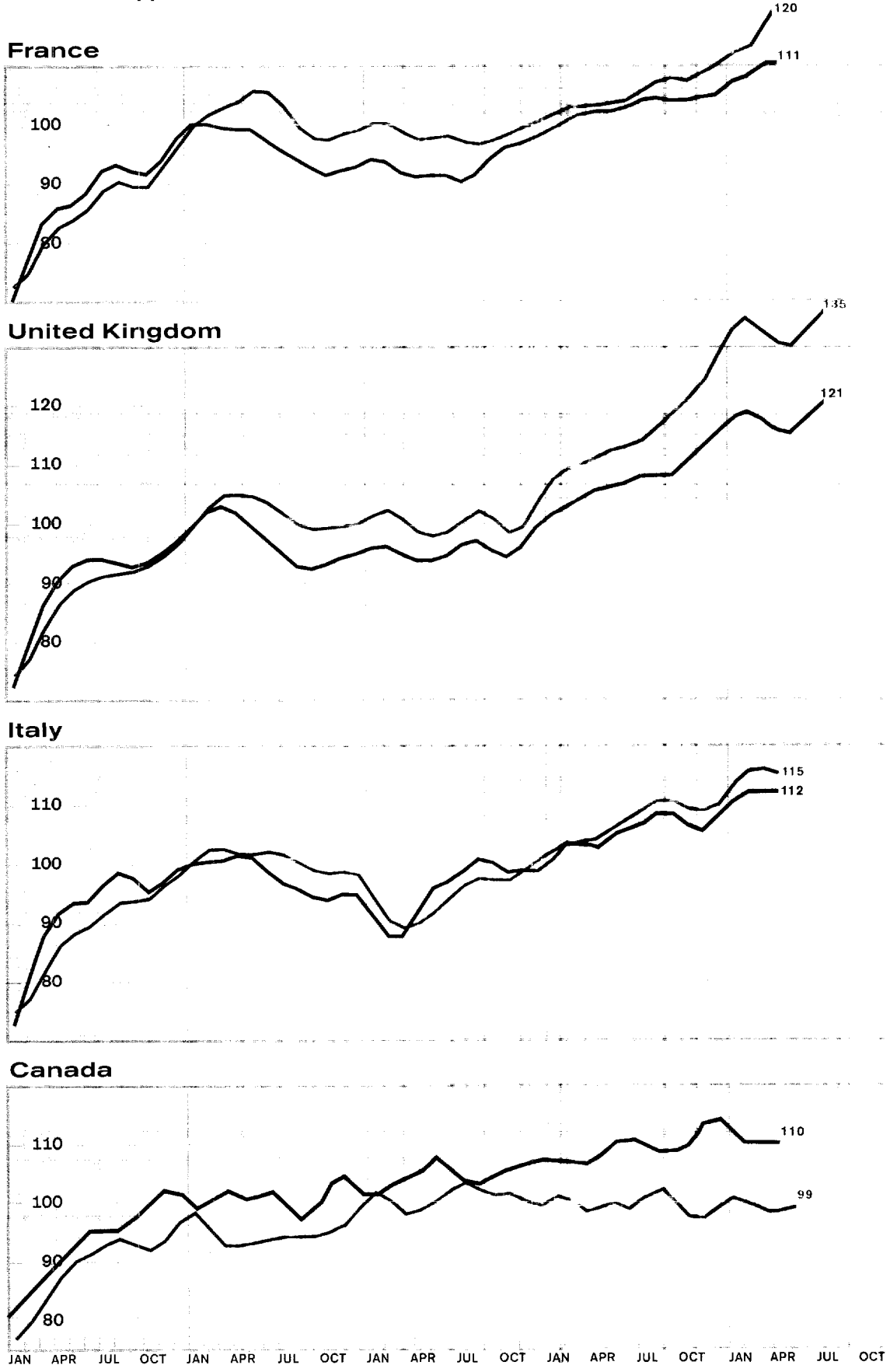
# FOREIGN TRADE PRICES IN US $[1]






[1]Export and import plots are based on five-month weighted moving averages.




Approved For Release 2004/08/19 : CIA-RDP80T00702A000800060004-3

# SELECTED DEVELOPING COUNTRIES

## INDUSTRIAL PRODUCTION [1]

| | Latest Period | Percent Change from Previous Period | Average Annual Growth Rate Since 1970 | Average Annual Growth Rate Since 1 Year Earlier | Average Annual Growth Rate Since 3 Months Earlier [2] |
|---|---|---|---|---|---|
| India | Mar 78 | 1.1 | 4.9 | 0.8 | 17.8 |
| South Korea | Jun 78 | −1.2 | 22.5 | 20.1 | 26.5 |
| Mexico | Apr 78 | 13.1 | 6.7 | 14.1 | 8.6 |
| Nigeria | 78 I | 6.8 | 11.0 | 0.2 | 29.9 |
| Taiwan | Apr 78 | 1.5 | 15.3 | 17.4 | − 2.0 |

[1] Seasonally adjusted.

[2] Average for latest 3 months compared with average for previous 3 months.

## MONEY SUPPLY [1]

| | Latest Month | Percent Change from Previous Month | Average Annual Growth Rate Since 1970 | Average Annual Growth Rate Since 1 Year Earlier | Average Annual Growth Rate Since 3 Months Earlier [2] |
|---|---|---|---|---|---|
| Brazil | Mar 78 | 2.7 | 36.4 | 43.3 | 34.7 |
| India | Feb 78 | −0.6 | 13.7 | 15.4 | 18.9 |
| Iran | May 78 | 0.4 | 29.0 | 21.4 | 66.2 |
| South Korea | Jun 78 | 4.3 | 31.6 | 30.4 | 20.9 |
| Mexico | May 78 | 3.9 | 20.8 | 33.0 | 24.9 |
| Nigeria | Dec 77 | −5.2 | 35.4 | 38.1 | 34.0 |
| Taiwan | Mar 78 | 5.3 | 25.2 | 31.0 | 24.3 |
| Thailand | Jan 78 | 2.7 | 13.2 | 13.7 | 21.5 |

[1] Seasonally adjusted.

[2] Average for latest 3 months compared with average for previous 3 months.

## CONSUMER PRICES

| | Latest Month | Percent Change from Previous Month | Average Annual Growth Rate Since 1970 | Average Annual Growth Rate Since 1 Year Earlier |
|---|---|---|---|---|
| Brazil | Jun 78 | 4.1 | 28.3 | 38.0 |
| India | May 78 | 0.3 | 7.4 | 1.6 |
| Iran | Jun 78 | −0.1 | 12.2 | 10.2 |
| South Korea | Aug 78 | 0.3 | 14.5 | 13.5 |
| Mexico | Jun 78 | 1.4 | 15.0 | 17.3 |
| Nigeria | Dec 77 | 2.9 | 16.5 | 30.6 |
| Taiwan | Apr 78 | 1.8 | 10.1 | 7.6 |
| Thailand | Apr 78 | 1.0 | 8.6 | 8.8 |

## WHOLESALE PRICES

| | Latest Month | Percent Change from Previous Month | Average Annual Growth Rate Since 1970 | Average Annual Growth Rate Since 1 Year Earlier |
|---|---|---|---|---|
| Brazil | May 78 | 3.4 | 28.4 | 34.5 |
| India | May 78 | 0.6 | 8.0 | −2.8 |
| Iran | Jun 78 | −1.3 | 10.7 | 9.3 |
| South Korea | Aug 78 | 0.1 | 15.7 | 10.9 |
| Mexico | Jun 78 | 1.3 | 16.6 | 16.8 |
| Taiwan | Mar 78 | 1.1 | 8.2 | 1.2 |
| Thailand | Jan 78 | −0.2 | 9.5 | 6.4 |

## EXPORT PRICES

US $

| | Latest Month | Percent Change from Previous Month | Average Annual Growth Rate Since 1970 | Average Annual Growth Rate Since 1 Year Earlier |
|---|---|---|---|---|
| Brazil | Feb 78 | 0.4 | 14.0 | 1.5 |
| India | Mar 77 | −0.9 | 9.6 | 17.9 |
| Iran | Jun 78 | 0 | 30.8 | 0 |
| South Korea | 78 I | 0.7 | 8.7 | 7.7 |
| Nigeria | May 76 | −0.1 | 27.3 | 12.3 |
| Taiwan | Mar 78 | −0.7 | 11.2 | 3.8 |
| Thailand | Dec 76 | 2.0 | 13.3 | 13.1 |

## OFFICIAL RESERVES

| | Latest Month | | Million US $ | | |
|---|---|---|---|---|---|
| | End of | Million US $ | Jun 1970 | 1 Year Earlier | 3 Months Earlier |
| Brazil | Feb 78 | 6,733 | 1,013 | 5,878 | 5,994 |
| India | Apr 78 | 6,064 | 1,006 | 4,134 | 5,411 |
| Iran | Jul 78 | 11,982 | 208 | 11,592 | 12,584 |
| South Korea | Jun 78 | 4,199 | 602 | 3,502 | 4,269 |
| Mexico | Mar 78 | 1,766 | 695 | 1,422 | 1,723 |
| Nigeria | Jun 78 | 2,387 | 148 | 4,663 | 3,906 |
| Taiwan | Mar 78 | 1,433 | 531 | 1,349 | 1,447 |
| Thailand | Jun 78 | 2,161 | 978 | 2,017 | 2,161 |

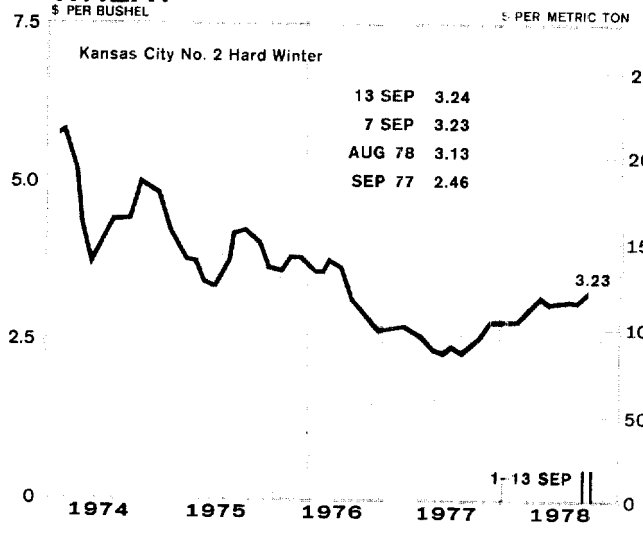
## FOREIGN TRADE, f.o.b.

| | Latest Period | | Latest 3 Months Percent Change from: 3 Months Earlier[1] | 1 Year Earlier | Cumulative (Million US $): 1978 | 1977 | Change |
|---|---|---|---|---|---|---|---|
| Brazil | May 78 | Exports | 84.8 | −3.7 | 4,743 | 4,979 | −4.7% |
| | May 78 | Imports | 26.6 | 1.4 | 5,110 | 4,939 | 3 5% |
| | May 78 | Balance | | | −367 | 40 | −407 |
| India | Feb 78 | Exports | 4.0 | 12.3 | 912 | 917 | −0.4% |
| | Feb 78 | Imports | −39.6 | − 0.2 | 845 | 916 | −7.7% |
| | Feb 78 | Balance | | | 67 | 1 | 66 |
| Iran | Jun 78 | Exports | 29.9 | 3.4 | 11,756 | 11,902 | −1.2% |
| | May 78 | Imports | −1.6 | 1.6 | 5,705 | 5,259 | 8.5% |
| | May 78 | Balance | | | 4,087 | 4,871 | −783 |
| South Korea | Jun 78 | Exports | 83.3 | 24.5 | 5,704 | 4,517 | 26.3% |
| | Jun 78 | Imports | 95.5 | 20.8 | 6,138 | 4,923 | 24.7% |
| | Jun 78 | Balance | | | −434 | −406 | −28 |
| Mexico | May 78 | Exports | −2.2 | 6.5 | 2,037 | 1,773 | 14.9% |
| | May 78 | Imports | 11.6 | 25.7 | 2,340 | 1,868 | 25.3% |
| | May 78 | Balance | | | −304 | −95 | −209 |
| Nigeria | Apr 78 | Exports | −55.4 | −29.9 | 1,143 | 1,597 | −28.4% |
| | Aug 77 | Imports | 56.1 | 80.1 | 2,535 | 1,640 | 54.6% |
| | Aug 77 | Balance | | | 716 | 979 | −263 |
| Taiwan | Apr 78 | Exports | −27.6 | 32.3 | 3,365 | 2,543 | 32.3% |
| | Apr 78 | Imports | − 14.5 | 20.4 | 2,869 | 2,338 | 22.7% |
| | Apr 78 | Balance | | | 496 | 205 | 291 |
| Thailand | Apr 78 | Exports | 27.0 | 3.2 | 1,277 | 1,221 | 4.6% |
| | Apr 78 | Imports | −6.5 | 14.3 | 1,449 | 1,251 | 15.8% |
| | Apr 78 | Balance | | | −172 | −30 | −141 |

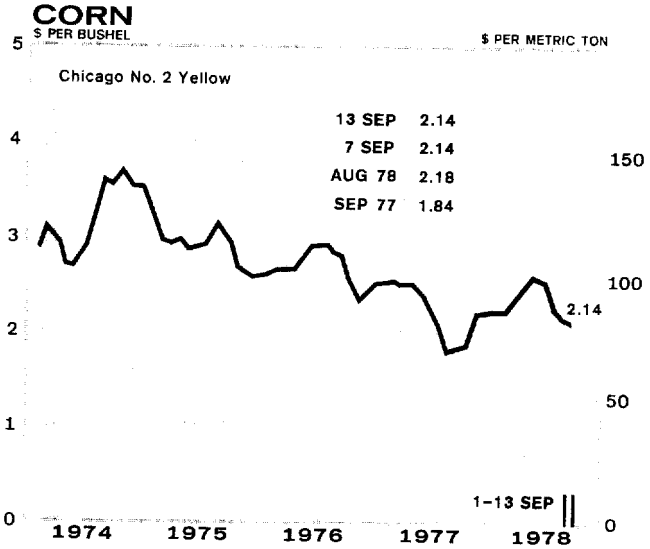
[1] At annual rates.

# AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE

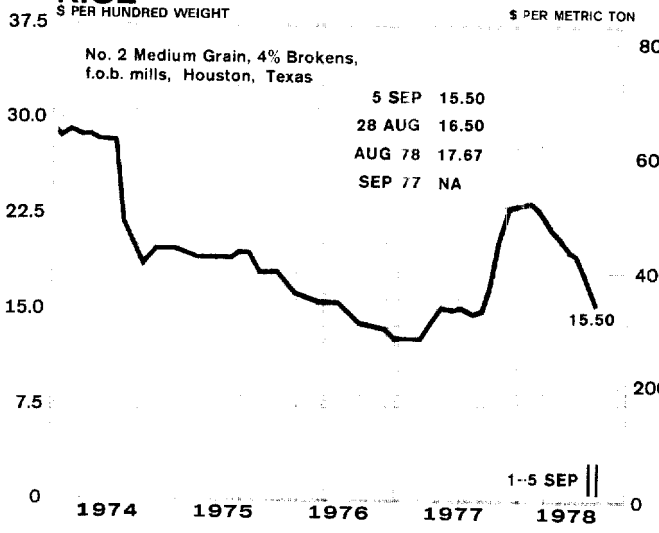
## WHEAT



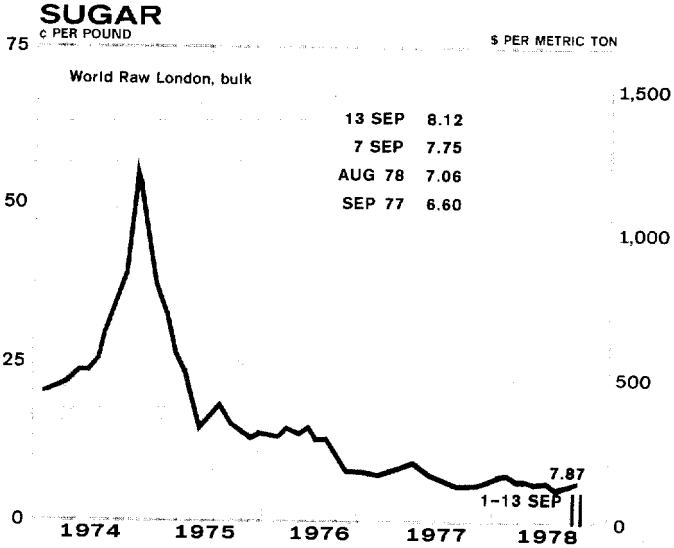

## CORN



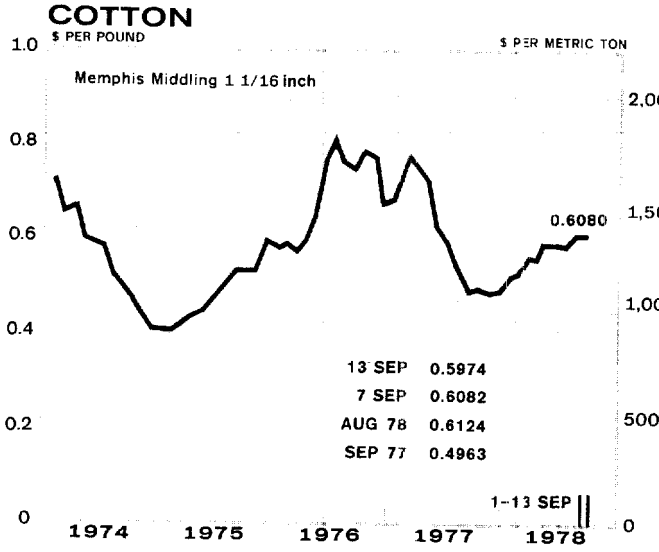

## RICE



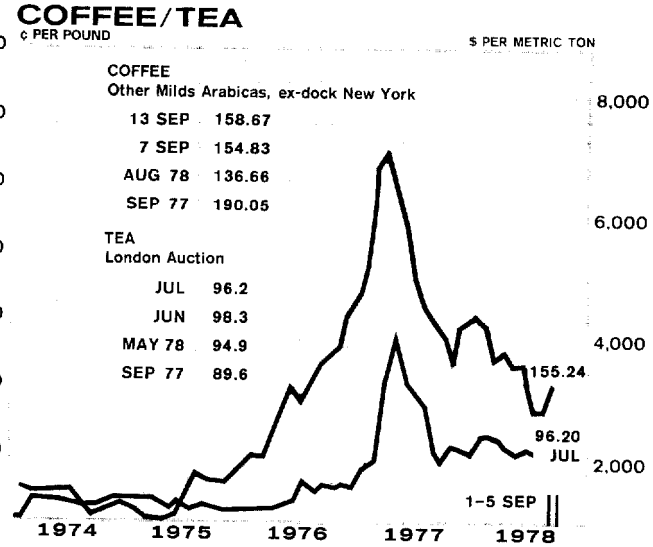

## SUGAR



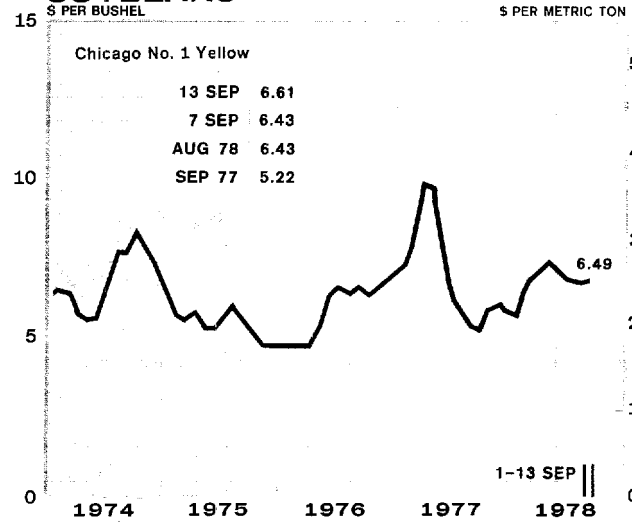

## COTTON



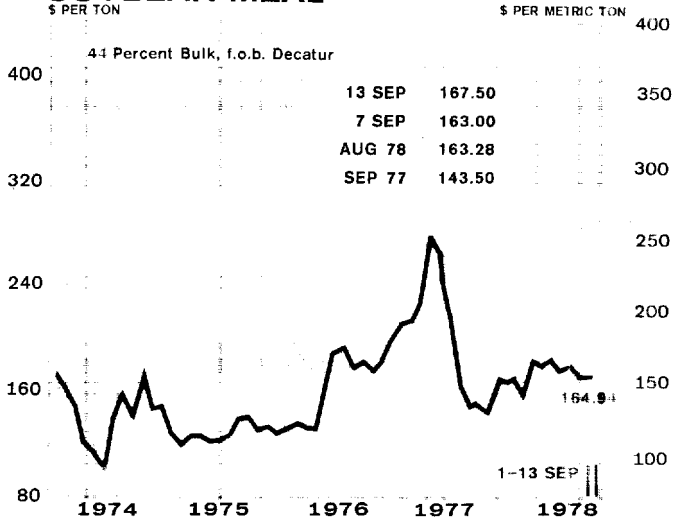

## COFFEE/TEA



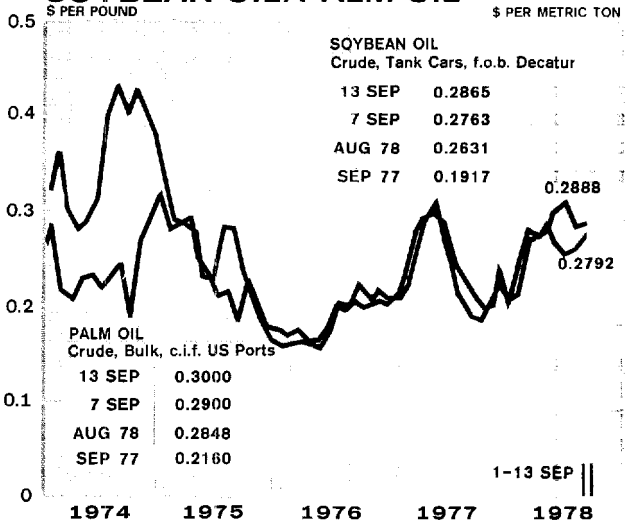
## SOYBEANS



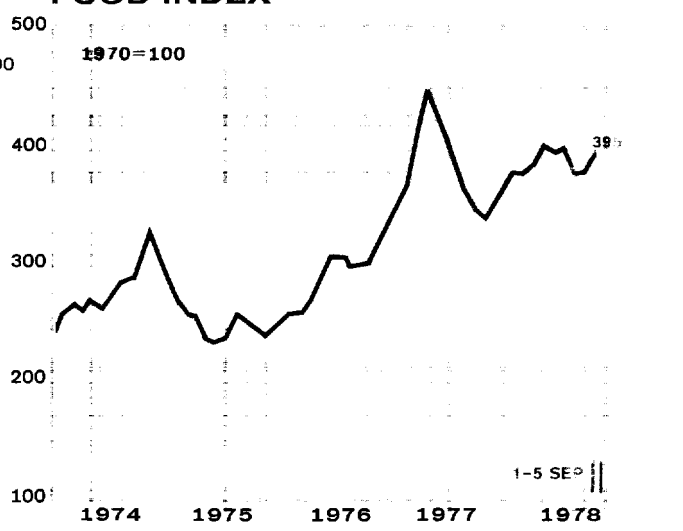

## SOYBEAN MEAL




## SOYBEAN OIL/PALM OIL




## FOOD INDEX

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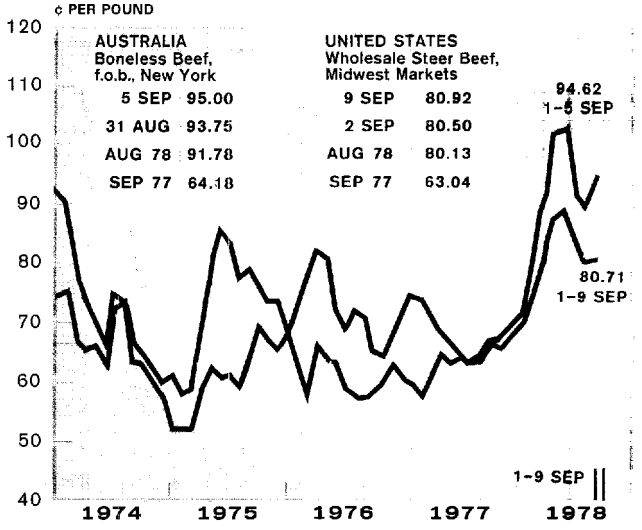
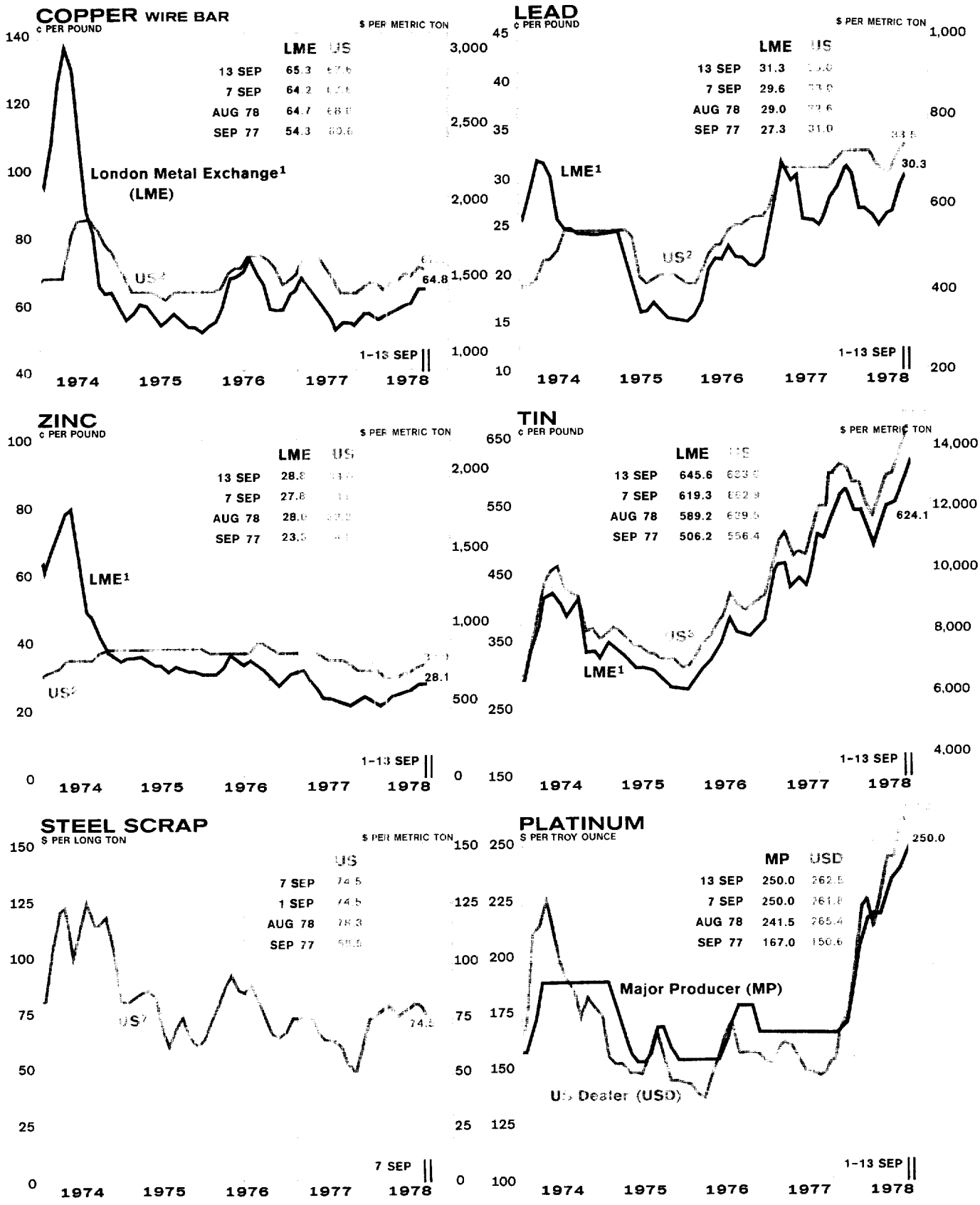
## BEEF




NOTE: The food index is compiled by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

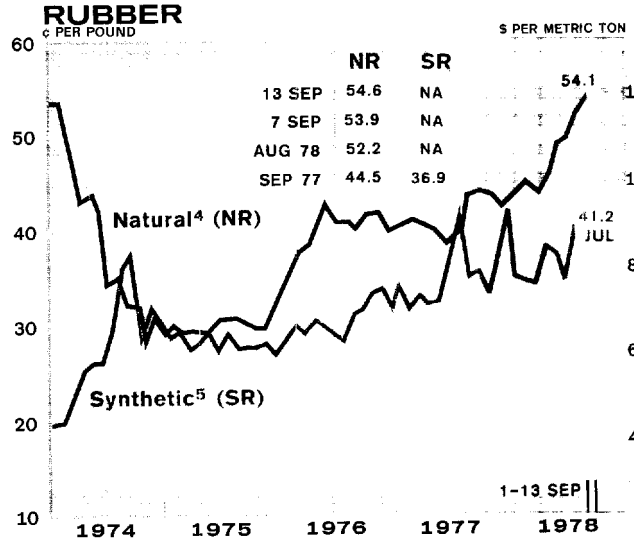
# INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE



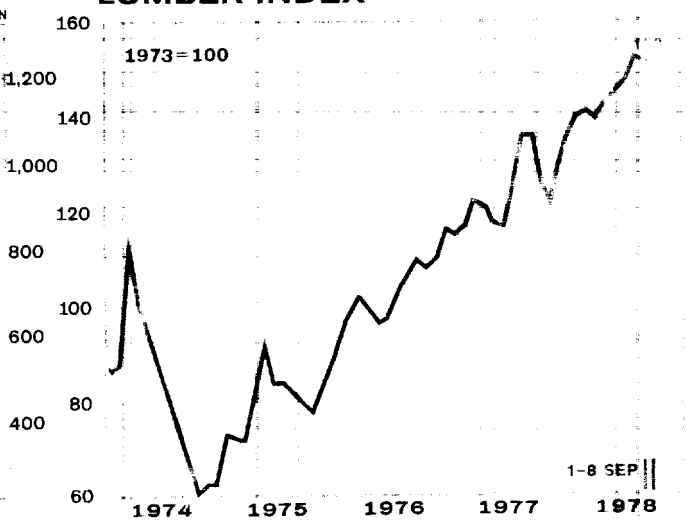
## SELECTED MATERIALS

| | | | CURRENT | MAR 78 | SEP 77 | SEP 76 |
|---|---|---|---|---|---|---|
| ALUMINUM | Major US Producer | ¢ per pound | 55.00 | 53.00 | 53.00 | 48.00 |
| US STEEL | Composite | $ per long ton | 419.31 | 389.60 | 359.36 | 327.00 |
| IRON ORE | Non-Bessemer Old Range | $ per long ton | 22.55 | 21.43 | 21.43 | 20.51 |
| CHROME ORE | Russian, Metallurgical Grade | $ per metric ton | NA | NA | 150.00 | 150.00 |
| CHROME ORE | S. Africa, Chemical Grade | $ per long ton | 56.00 | 56.00 | 58.50 | 42.00 |
| FERROCHROME | US Producer, 66-70 Percent | ¢ per pound | 42.00 | 41.00 | 41.00 | 44.00 |
| NICKEL | Composite US Producer | $ per pound | 2.02 | 2.06 | 2.16 | 2.24 |
| MANGANESE ORE | 48 Percent Mn | $ per long ton | 67.20 | 71.80 | 72.26 | 72.00 |
| TUNGSTEN ORE | Contained Metal | $ per metric ton | 17,970.00 | 18,822.00 | 19,494.00 | 16,045.00 |
| MERCURY | New York | $ per 76 pound flask | 156.00 | 155.17 | 124.29 | 116.90 |
| SILVER | LME Cash | ¢ per troy ounce | 554.60 | 525.95 | 453.91 | 428.96 |
| GOLD | London Afternoon Fixing Price | $ per troy ounce | 209.87 | 183.66 | 149.52 | 114.14 |

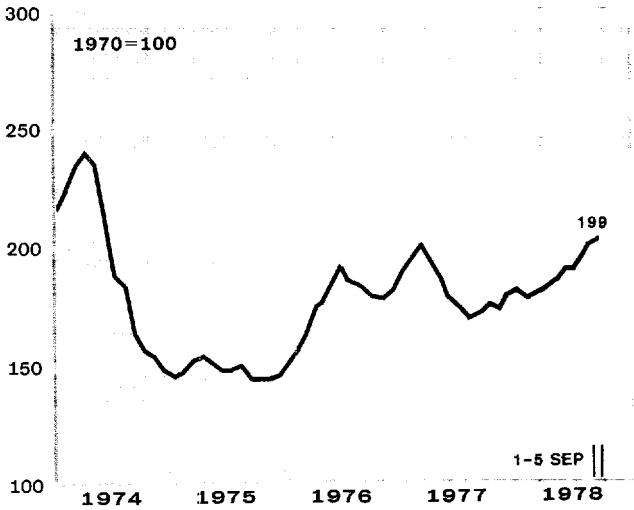
## RUBBER




## LUMBER INDEX[6]




## INDUSTRIAL MATERIALS INDEX




[1]Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.

[2]Producers' price, covers most primary metals sold in the US.

[3]As of 1 Dec 75, US tin price quoted is "Tin NY lb composite."

[4]Quoted on New York market.

[5]S-type styrene, US export price.

[6]This index is compiled by using the average of 13 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.

[7]Composite price for Chicago, Philadelphia, and Pittsburgh.

NOTE: The industrial materials index is compiled by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.